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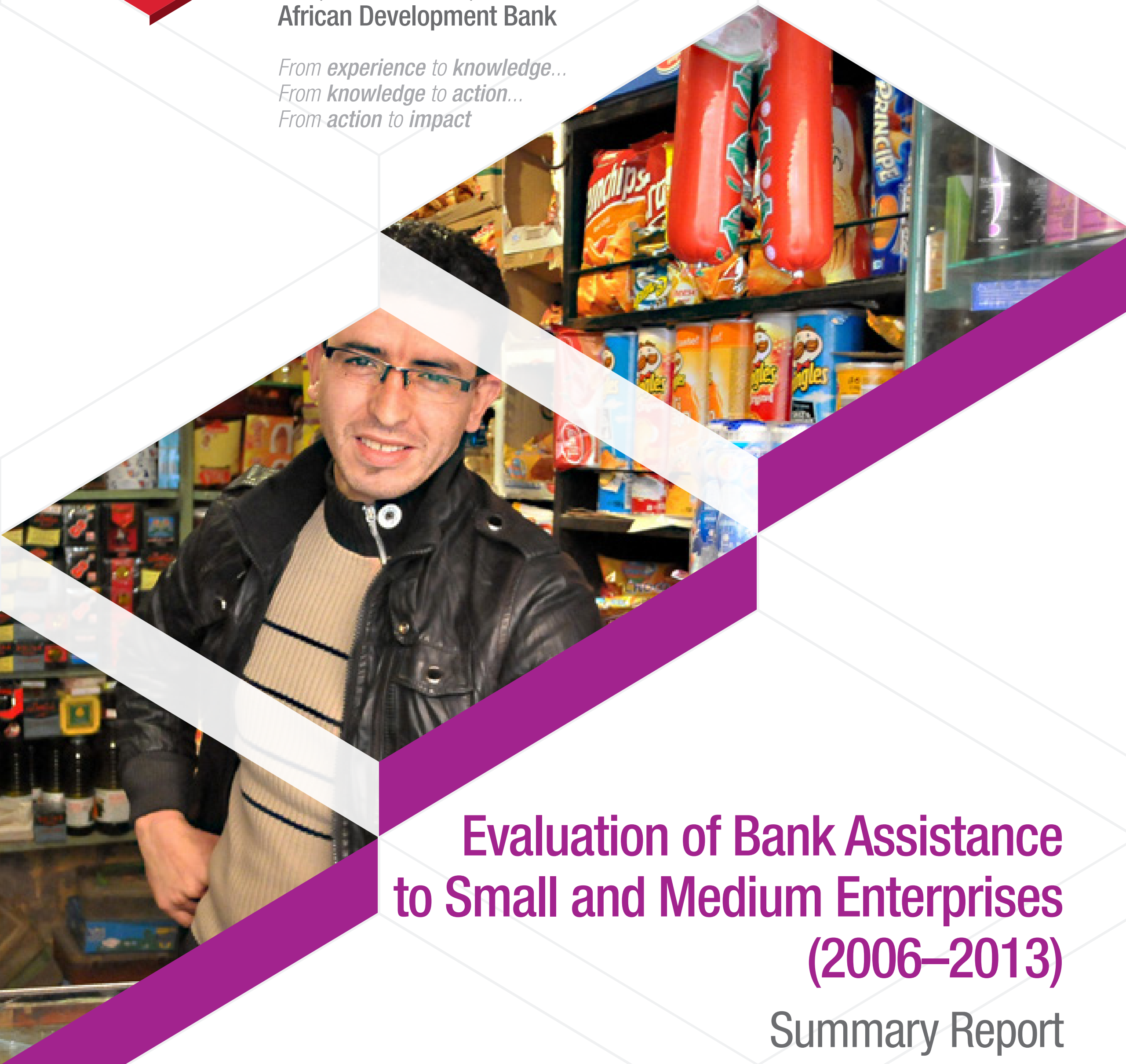

Evaluation of Bank Assistance to Small and Medium Enterprises (2006–2013)

Summary Report

Redacted version

An IDEV **Thematic Evaluation**

AFRICAN DEVELOPMENT BANK GROUP

September 2015

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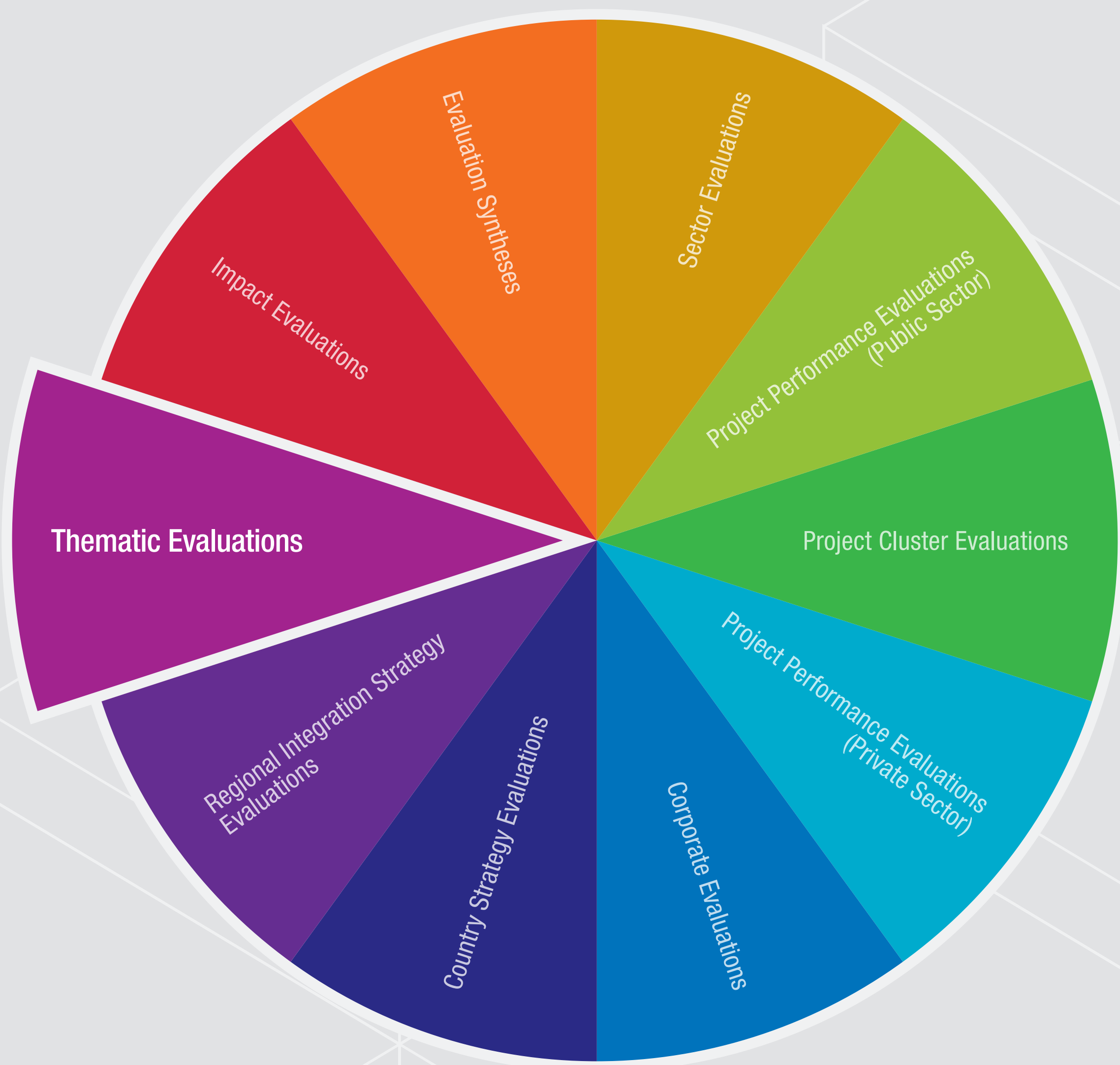

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September 2015

An IDEV **Thematic Evaluation**

ACKNOWLEDGEMENTS

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Evaluation of Bank Assistance to Small and Medium Enterprises (2006–2013) — Summary Report; Redacted version
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About the AfDB

The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs and providing policy advice and technical assistance to support development efforts.

About Independent Development Evaluation (IDEV)

The mission of Independent Development Evaluation at the AfDB is to enhance the development effectiveness of the institution in its regional member countries through independent and instrumental evaluations and partnerships for sharing knowledge.

Independent Development Evaluation (IDEV)
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Abbreviations and Acronyms

AfDB	African Development Bank
ASMEP	Africa Small and Medium Enterprise Program
DFI(s)	Development Finance Institution(s)
EBRD	European Bank for Reconstruction and Development
FAPA	Fund for African Private Sector Assistance
IDEV	Independent Development Evaluation (formerly OPEV)
IFC	International Finance Corporation
MDB(s)	Multilateral Development Bank(s)
OPSD	Private Sector Development Department
PBO(s)	Policy-Based Operation(s)
PFI(s)	Partner Financial Institution(s)
SME(s)	Small and Medium Enterprise(s)
TSME	Targeted Small and Medium Enterprise(s)

Symbols used in tables

~ means approximate value

.. means not available

– means not applicable

0 means zero or a quantity less than half the unit shown

In all tables, totals may not add up due to rounding

All monetary amounts are U.S. dollars unless otherwise indicated


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Executive Summary

Introduction

This evaluation reviews the assistance provided by the African Development Bank (the Bank) to small and medium enterprises (SMEs) from 2006 to 2013. The evaluation assessed the relevance, additionality, effectiveness, sustainability, and efficiency of SME assistance operations, as well as the Bank's approach to SME development. The exercise involved a combination of desk work, including review of all relevant documents from various sources, and field work, including missions to six countries (Ghana, Kenya, Morocco, Tanzania, Togo, and Zambia). The evaluation also benchmarked the Bank's operations, organizational setting, and procedures against two other multilateral development banks (MDBs), namely, the World Bank Group and the European Bank for Reconstruction and Development. Although the evaluation focused on SME assistance operations approved between 2006 and 2013, as only a small number of these operations were completed at the time of the study, the analysis was extended to operations approved from 2000 for which self-evaluation reports exist. Overall, the exercise covered 105 operations, of which 50 had been completed by the end of 2013, and 55 were at various stages of implementation, including some projects that had been approved but not yet signed.

Overview of Bank Small and Medium Enterprise Assistance

The Bank approved 70 operations specifically supporting SME development (targeted SME assistance) between 2006 and 2013. These include (i) ***46 investment operations*** involving the provision of debt and/or equity financing through lines of credit, investments in equity funds, credit guarantees, etc.; (ii) ***16 technical assistance grants***, mostly complementing lines of credit to financial intermediaries; and (iii) ***eight institutional support projects*** providing capacity-building and policy reform assistance in areas relevant to SME development. The total value of approved targeted SME assistance is ***approximately US$1.9 billion***, i.e. about ***3.7 percent of all Bank approvals***. Discounting cancellations and projects approved but not yet signed, the total committed value is just below ***US$1 billion***. Investment operations account for about 98 percent of total approvals, with the bulk of funding channeled via credit lines (80 percent) or invested in equity funds (12 percent). An additional contribution to SME development was provided by ***15 policy-based operations***. Aimed at supporting governments' broad policy reform and economic restructuring efforts, these operations also covered some themes relevant to SME development, such as the improvement of the legal and regulatory framework and the strengthening of some support structures.

Key Findings

Relevance of Strategic Orientation: Overall, the relevance of the Bank's strategic orientation is rated as satisfactory.

The importance of SME development in Africa has long been recognized by the Bank, and SME development has been a recurrent theme in strategic and policy documents. However, no dedicated SME strategy exists and SME assistance lacks a unified conceptual framework. This is partly reflected by the absence of a harmonized definition of SME, often preventing proper identification of target groups. The themes addressed by the Bank are highly relevant for SME development. However, when compared with other MDBs, the Bank is more focused on improving conditions for SME finance, while less attention is paid to other areas of interventions (investment climate reform, financial market infrastructure, market access, etc.). About 80 percent of SME assistance was provided through credit lines, including apex lending operations with regional development finance institutions (DFIs). However, this preference for traditional instruments coexists with a certain propensity to innovate, as witnessed by the significant involvement in equity funds (in relative terms, on a scale comparable to that of the International Finance Corporation and European Bank for Reconstruction and Development) and the pioneering role in credit guarantees (with the launch of the African Guarantee Fund).

One persistent gap in the Bank's product mix is the limited use of local currency lending, which limits its ability to effectively reach SME beneficiaries. About one-quarter of SME assistance during the period under review was allocated to regional or pan-African initiatives, but at the regional and country level, assistance was highly concentrated, with West Africa accounting for nearly two-thirds of the total and Nigeria about half. Such a high geographical concentration to the detriment of low-income countries is clearly at odds with the Bank's emphasis on reduction of regional disparities across the continent. In this respect, the emphasis placed by the recent Africa SME Program (ASMEP) on seeking a "*wide continental coverage including in LICs* [low-income countries] *and fragile states"* constitutes an important innovation.

Relevance of SME Assistance Operations: Overall, the relevance of the SME assistance operations is rated as moderately satisfactory.

The relevance of SME assistance operations was often undermined by weaknesses in design. In some cases, there was a limited appreciation of client's financial needs, which resulted in project cancellations. Financing agreements often did not appropriately specify eligibility criteria for sub-loans. This provided ample room for the risk-averse banks, a substantial subset among the recipients of the Bank's SME assistance, to utilize loan proceeds for safer corporate lending. As a result, a significant share of Bank assistance was nominally targeted at SMEs, but in practice can be better described as generic private-sector development assistance. However, since 2013 the SME focus has been considerably strengthened, and operations channeled through the ASMEP and the African Guarantee Fund are much more aligned with SMEs' financing needs. Another positive feature has been the frequent combination of investment and technical assistance operations, although the latter were not always squarely focused on SMEs.

Effectiveness of SME Assistance Operations: Overall, the effectiveness of SME assistance operations is rated as moderately satisfactory.

Due to design weaknesses, the Bank's ability to reach SMEs was limited, with the majority of projects performing well below target. Out of the sample of 17 operations for which detailed data are available, 10 missed their targets by more than 25 percent, three performed on target, and four overperformed. These projects provided financing to 1,800 firms. While 90 percent of these beneficiaries can indeed be reasonably characterized as SMEs, they received less than 40 percent of the US$622 million disbursed. The rest went to large enterprises, each receiving on average about US$2 million, compared with an average of US$150,000 for SMEs. Only a few financial intermediaries expanded their SME portfolio and even fewer introduced new financial products for SMEs. On the positive side, the majority of projects performed well in financial terms, experiencing little or no defaults. Somewhat predictably, the share of non-performing loans was higher in the case of operations more squarely targeting SMEs, a reminder of the difficulties of working with SMEs. The effects of the Bank's SME assistance are difficult to gauge, partly due to the lack of information. In the case of the 15 operations for which accurate data on employment were available, a crude before-and-after comparison suggested an increase in employment of some 25,000 people, of which about 15,000 were in SMEs and the remainder in large enterprises.

Additionality of the Bank's Intervention: Overall, the additionality of the Bank's intervention is rated as moderately satisfactory.

Provision of long-term resources enabled financial intermediaries to match the demand for term credit (medium- to long-term lending). The Bank was also an important investor in a dozen equity funds, contributing to their commercial viability. However, the Bank rarely played a catalytic role. Most intermediaries were recipients of or were concurrently receiving substantial support from other MDBs/DFIs. In the case of equity funds, the Bank was rarely a first-round investor, and again other MDBs/DFIs also provided substantial funding. Non-financial additionality is rather modest. The majority of banks receiving credit lines from the Bank were also supported with technical assistance, but these interventions do not seem to have appreciably influenced project results. Finally, an element of political risk mitigation is present in a limited number of operations undertaken in North Africa following the Arab Spring.

Sustainability of SME Assistance Operations: No rating is possible for sustainability.

Little can be said about sustainability due to the limited number of completed projects and the paucity of development results sustained. Most partner financial institutions (PFIs) receiving support have been performing well, but this is scarcely surprising given the selection criteria adopted. There are, however, a few cases in which the innovations introduced with Bank assistance have been pursued after project completion.

Efficiency of Organizational Set-up and Procedures: Overall, the efficiency of the organizational set-up and procedures are rated as moderately satisfactory.

The Private Sector and Microfinance Department of the Bank, responsible for investment operations and related technical assistance, handled the bulk of SME assistance operations. The policy-based operations and institutional support projects, on the other hand, were implemented by the Bank's Governance, Finance and Economic Management Department. While this organizational setting is fairly compact (and certainly less dispersed than in other, larger MDBs, such as the International Finance Corporation), there is limited sharing of experience between the various units involved in SME-related work. Over the study period (2006–2013), the average time required to process an investment operation was about 10–12 months, i.e. about twice the average approval time at the International Finance Corporation and the European Bank for Reconstruction and Development. Similarly, the Bank had about twice as many approval gates, with a particularly laborious project clearance process. However, some improvements were recently introduced for operations undertaken in the framework of the ASMEP, which provides a streamlined approval procedure. No particular issues emerged regarding disbursements of investment operations, whereas problems were found with technical assistance operations, with the complexity of procurement procedures being the subject of criticism from clients.

Monitoring and Evaluation: In summary, the appropriateness of monitoring and evaluation arrangements are rated as moderately unsatisfactory.

The monitoring and evaluation of SME assistance operations is challenging, requiring design of appropriate measuring tools and the collection of a significant mass of data. The matter is further complicated by the two-tiered structure of most SME operations, which in principle requires information from both immediate beneficiaries (banks, equity funds, etc.) and ultimate beneficiaries (the SMEs). Tools for measuring the performance of SME assistance operations were developed in the framework of the ASMEP. However, serious problems persist in data collection, with client financial institutions showing little inclination to provide data in a timely manner and Bank staff sometimes hesitating to put pressure on clients.

Recommendations

Strategic Approach. In the Bank's Ten-Year Strategy, SME assistance is expected to play a growing role. The Bank's strategic approach to SME development would benefit from a more comprehensive framework for SME assistance operations, as well as from improvements in the range of instruments employed. To this effect, the Bank should consider the following recommendations:

Recommendation 1 – Develop a comprehensive conceptual framework for SME assistance.

The Bank should consider the establishment of a comprehensive framework for SME assistance. Ideally, this could take the form of a dedicated strategy, covering all forms of SME assistance, as done by the European Bank for Reconstruction and Development. The development of such a framework should be accompanied by a revamping of analytical work, which could provide useful inputs both for policy formulation and for the design of specific operations.

Recommendation 2 – Adopt a definition of SME.

An official definition of SME should be adopted by the Bank so that the target groups are clearly defined. The definition of SME put forward by the ASMEP, based on size, is a good starting point, as it differentiates between small and medium firms and countries at different levels of development. In the case of operations with financial intermediaries, the Bank may consider complementing the size-based definition with one based on loan size, which is likely to be more easily handled by PFIs.

Recommendation 3 – Expand the utilization of local currency financing.

The prevalent use of foreign-exchange funding negatively affects the reach of Bank operations, as SMEs' financing needs are usually in local currency and PFIs are hesitant in bearing foreign-exchange risks. An expansion of local-currency operations is already envisaged under the ASMEP, and the Bank should definitely make efforts to translate this into concrete action.

Relevance and Effectiveness of Operations. The findings of this evaluation show that there is ample margin for improving the relevance and effectiveness of Bank SME assistance operations. To this effect, the Bank should consider the following recommendations:

Recommendation 4 – Improve the design of investment operations.

The design of future operations should involve a more accurate assessment of PFIs' financial needs, with the primary objective of drastically reducing cancellations. This should be accompanied by a more realistic assessment of PFIs' propensities and abilities to effectively serve SME clients, with the setting of more realistic targets. Accordingly, project preparation work should include (i) a detailed review of the pipelines developed by PFIs to ascertain the nature of prospective sub-borrowers (are they really SMEs?); (ii) an assessment of market conditions, leading to a clear appreciation of the nature and magnitude of the financing gap(s) to be filled (which market segments are underserved? how many SMEs are likely to fall into these market segments?); (iii) a thorough assessment of PFIs' experiences in working with SMEs (entailing a review of the portfolio composition and its evolution); (iv) the identification of the changes (in organization, procedures, product mix, etc.) possibly required to effectively enter or scale-up SME financing operations; and (v) a review of other donor/MDB SME support programs to avoid possible crowding out effects.

Recommendation 5 – Diversify the range of client PFIs and countries of operations.

The Bank should actively seek to work with a broader range of PFIs across Africa. Diversifying the portfolio is already envisaged by the ASMEP, and the Bank should definitely deploy efforts to translate this into concrete action.

Recommendation 6 – Strengthen eligibility conditions to ensure that SMEs are effectively reached.

In the case of PFIs, eligibility conditions must be clearly specified so that on-lending (a financial intermediary lending money borrowed from another organization) is aligned with the intended objectives. Loan agreements with PFIs should make explicit reference to the official SME criteria retained by the Bank based on loan size. Sub-loans exceeding a certain size and/or extended to firms not qualifying as SMEs should be subject to explicit Bank approval.

Recommendation 7 – Improve the relevance of technical assistance and facilitate its implementation.

While the problems afflicting financial intermediaries have common roots, the deployment of standardized technical assistance packages is of limited benefit. Accordingly, technical assistance initiatives should be tailored to the specific needs of each intermediary and be more consistently aligned with the objectives of the associated lending or investment operations. In addition, to avoid delays in the deployment of technical assistance, the Bank should consider a simplification of procurement procedures to better match the capabilities of beneficiaries. For the former, the recent finalization by the Bank's Financial Sector Development Department of a framework contract for the provision of needs-assessment services for technical assistance for ASMEP-funded operations is a step in the right direction.

Organization of Operations. Improvements in the strategic approach and in the design and implementation of operations need to be supported by appropriate changes in the organizational setting and in relevant procedures. To this effect, the Bank may wish to consider the following recommendations:

Recommendation 8 – Improve coordination among services involved in SME assistance.

The coherence of SME assistance would benefit from mechanisms being put in place to achieve a greater integration among the various Bank services concerned. This could be done through the creation of a community of practice, linking all the staff involved in SME-related operations and facilitating the sharing of experiences and best practices. Ideally, this community of practice should be coordinated by a small SME cell modeled after the Small Business Initiative Unit recently established at the European Bank for Reconstruction and Development (but on a smaller scale given the vastly different scale of SME operations).

Recommendation 9 – Simplify project approval procedures.

Building upon the experience gained through the simpler procedures exhibited in the ASMEP, the Bank should consider simplifying internal procedures for SME assistance projects, including (i) reducing the number of gates through which project proposals have to pass; and (ii) introducing streamlined approval procedures based on no-objection mechanisms or on the delegation of powers to senior management. The specific parameters for this reform could benefit from the experience of other MDBs, in particular the European Bank for Reconstruction and Development and the International Finance Corporation.

Monitoring and Evaluation Arrangements. The monitoring and evaluation of the Bank's SME assistance would benefit from the availability of more detailed information on the results achieved by individual operations. To this effect, the Bank may wish to consider the following recommendations:

Recommendation 10 – Improve the collection of information on project achievements.

In order to accurately assess the performance of Bank assistance operations, the Bank needs to collect credible information on both financial intermediaries and ultimate beneficiaries. Loan agreements should require PFIs to provide information on their lending or investment activities. At a minimum, PFIs should have to provide: (i) the number and basic features of the sub-loans; (ii) detailed data on the composition of their portfolio, with a separate indication of the number and value of operations with SMEs (based on a uniform definition of SMEs); and (iii) data on non-performing operations, again with a separate indication of the relevant parameters for SMEs. Whenever feasible, PFIs should also be required to collect information on client SMEs for at least some basic variables (turnover, employment, exports). Although not exhaustive, this information would be useful to establish a baseline for future impact assessment exercises.

Recommendation 11 – Establish a Results Tracking and Reporting System.

In order to improve results reporting, the Bank should establish a results reporting system for tracking, monitoring and reporting development results. Such systems are currently standard in most MDBs (e.g. the Development Outcome Tracking System in the International Finance Corporation, and the Transition Impact Monitoring System in the European Bank for Reconstruction and Development).

Management Response

Management welcomes the independent review of the Bank's Assistance to Small and Medium Enterprises (SMEs) 2006-2013, which presents a positive view of the AfDB's interventions and notes the continued improvements made in the years since the evaluation period. The evaluation assessed the relevance, additionality, effectiveness, sustainability and efficiency of SME assistance operations as well as the Bank's approach to SME development. Following a brief introduction, Management's observations are presented, along with a Management Action Record to summarize AfDB's ongoing commitments towards enhanced SME assistance.

Introduction

The AfDB is actively involved in supporting Africa's SMEs. The evaluation covers a selection of 70 operations over the period 2006-2013 valued at approximately US$ 2.1 billion, including investment operations, technical assistance (TA) grants, and institutional support projects (ISPs). While the evaluation focuses primarily on SME financing though financial intermediaries (FIs), which is also the focus of sister MDBs, the AfDB also provides non-financial assistance to SMEs. The latter encompasses improved market access through market infrastructure, aggregator financing (particularly in the agribusiness value-chain), business linkages, strengthening the managerial and technical capabilities of SMEs, improving the quality of financial information infrastructure, as well as investment climate reforms, which are equally important to enhance the competitiveness of Africa's SMEs.

Management is committed to continuing to improve its approach to SME assistance. A number of important changes have occurred since the evaluation period. These include a strategic refocusing, the introduction of new programmatic approaches and enhanced operational targeting of SME assistance. Two SME-oriented strategies have been approved since the evaluation period, notably the Financial Sector Development Policy and Strategy 2014-2019 and the Human Capital Strategy 2014-2018. In addition, the Private Sector Department (OPSD) is also piloting an Inclusive Industries Program, to enhance the integration of local and regional SMEs in the supply chain of large industrial and infrastructure projects. Recognizing the importance of a coordinated approach to provide local currency financing through financial intermediaries, including in low income countries and fragile states, the AfDB approved the multi-year Africa SME Program 2013-2017 (ASMEP). Management is encouraged by the evaluation's reference to the ASMEP as a best practice example. A significant improvement to operational targeting has also occurred since the evaluation period. To this end, Management now requires that enhanced financing agreements are negotiated and agreed with financial intermediary clients, which specify eligibility criteria for SME sub-loans, along with development outcome monitoring templates and reporting requirements. Specific observations on the evaluation findings are elaborated below.

Strategic Approach

The evaluation rates the Bank's strategic orientations as satisfactory, in recognition of the importance of SMEs as reflected in Bank strategies including the overarching Ten-Year Strategy (TYS, 2013-2022). However, the evaluation identifies areas which could benefit from further refinement, including an overall framework for SME assistance, coordination towards an official definition of SMEs, broadening the range of clients, and further use of local currency financing, which are expanded upon below.

Framework for SME assistance

The overall strategic framework for SME assistance is in place. In late 2013, the Financial Sector Development Department (OFSD) was established with a new structure designed to focus not only on conditions for SME finance but also on financial market infrastructure. Subsequently, as noted above, the Financial Sector Development Policy and Strategy were approved by the AfDB Board in October 2014. Under this revised organizational set-up and dedicated strategy, SME assistance forms a core pillar for financial sector activities. This further supports the foundations established with the Private Sector Development Strategy (PSDS)'s emphasis on a multi-sector approaches to supporting African enterprises with a focus on SMEs, defined at a Bank-wide level, but integrated at the country-level to ensure alignment and responsiveness to local realities and priorities. In addition, entrepreneurship and skills development is spearheaded under the AfDB's Human Capital Strategy for Africa, which was also approved by the Board in 2014. Other departments have, embedded in their strategies, a focus on SMEs and entrepreneurship, including the Governance Action Plan II.

The Ongoing Discussion on SME Definitions

Management agrees on the importance of proper targeting of SMEs. Developing a definition of SMEs is a complex undertaking. For example, most of the countries in which the AfDB operates have their own definition of SMEs. Given vast differences in markets between many of the Bank's RMCs, a definition would need to be sufficiently flexible in order to avoid blunt targeting. However, Management has already taken action to ensure SMEs are targeted through financial intermediary transactions. Currently, the definition for the target group for use of Letters of Credit (LoCs), which is based on the central bank definition in the country of the FI, is incorporated in the LoC Legal Agreement and these financing agreements clearly specify eligibility criteria.

Greater Use of Local Currency Financing

The AfDB is cognizant of the need to provide local currencies. This allows clients to minimize foreign exchange risks and match liabilities with revenue streams which may also be in foreign currency. Accordingly, since 2011, the Board has approved a number of African currencies as official lending currencies. The AfDB has also offered local currency loans through bond issuances in Ugandan Shillings and Nigerian Naira as well as through synthetic local currency loans in Zambian Kwacha. The AfDB is increasingly extending its support to smaller financial institutions (in particular, through the Africa SME Program) whose foreign exchange risk management capacity may be limited and thus AfDB's local currency facilities, along with treasury support for hedging, brings significant additionality.

Not all SMEs need local currency. As an important caveat, some clients will continue to require hard currencies because they serve export- or import-oriented SMEs who are earning hard currencies. It should also be noted that some issues are precluding efficient usage of local currency loans, including potentially unattractive pricing for clients (due to unfavorable interest rate environments in some countries) and differences in administration of loan currencies between different departments. Management is committed to addressing these issues.

Relevance and Effectiveness of Operations

The evaluation highlights positive areas in relation to the relevance and effectiveness of operations, including working with smaller financial institutions, using new instruments and programs, and the high additionality brought by access to long-term funds, typically in scarce supply from commercial sources. However, it also notes the need to continue to improve the design of operations, to seek clients in a broader mix of countries and to improve the implementation of technical assistance.

Improvements to Design of Operations

Management is committed to improving the design of operations. There is room to leverage expertise from across project teams, including team members in development research (ADOA), credit risk (GCRD), portfolio management (OPSM5) and country economists. This is important to ensure that thorough analytical work underpins the design of operations, and that lessons learned are systematically taken on board. In addition, for non-sovereign operations, Management will be guided by the ADOA Framework 2.0, recently approved by the AfDB Board in Q2 2015, which is expected to enhance development outcomes targeting. In terms of additionality, we have found that FIs and Funds have been able to attract other financiers thanks to the Bank's involvement, even if the AfDB was not a first close financier. To leverage such opportunities, OFSD is planning to take new programmatic approaches to SME support as well as to private equity.

Broadening Client Base

The AfDB carefully manages its portfolio distribution. Management prudently follows sector, country exposure and single obligor limits defined by the independent risk management department for non-sovereign operations, as well as country allocations decided during each ADF cycle. Moreover, Management underscores the limitations of examining country concentration without considering the size of economies, their needs and demand for financing, nor the Bank's headroom in these countries.

Nevertheless, Management agrees with the need to broaden its reach in SME assistance. Recently strengthened efforts for business development are currently underway. Already, this has materialized in new countries being reached with SME assistance. OPSM and OFSD have been actively communicating with potential clients who are located in those countries where the Bank's exposures remain relatively small considering the potential size of the SME space. There is also room for the AfDB to leverage field offices to build up knowledge and pipelines of new clients. As we seek to penetrate new markets, the AfDB must ensure that processes are streamlined so we can attract such new clients. In all this, the Bank will need to remain demand driven. Finally, in light of the high risk profile and specific transactional challenges facing smaller entrepreneurs, OPSD is actively pursuing blend-financing methodologies and approaches in partnership with other IFIs working with the private sector.

Technical Assistance (TA)

Management agrees that there is room for improvement in the implementation of TA. Procedures for accessing TA are perceived as bureaucratic and this may at times have led to inability to disburse grants. Undertaking programs, such as those envisaged by OFSD may offer the possibility to seek broader grant resources for TA provision that may reduce procurement related delays compared to working on a single transaction basis. Since 2006, the Fund for Africa Private Sector Assistance (FAPA) has pioneered the mobilization and deployment financing to non-sovereign entities for private sector development. Other trust funds have begun opening up TA financing eligibility to non-sovereign operations. These are positive developments that need to be scaled up- not only in terms of the mobilization and deployment of financing for TA, but also in strengthening in-house capacities to design and implement TA and advisory services. Over the past year, OFSD has been experimenting with using loan proceeds to pay for TA. This seems to be well received by clients and is expected to facilitate uptake while simplifying processing times.

Organizational Aspects

The evaluation notes that the Bank has twice as many approval gates than the other MDBs, resulting in processing times that are nearly twice as long. The independent evaluation acknowledges recent organizational changes with respect to the creation of the new financial sector development department and programmatic approach of the Africa SME Program but rates AfDB's performance as only moderately satisfactory due to its cumbersome approval procedures.

Project Approval Procedures

Management agrees there is a need to improve and shorten project approval procedures. The lengthy processing time for transactions may make the AfDB a less attractive institution for potential clients. Beyond the number of approval gates, there is also a need for various parties to define and meet their service level commitments. Thus, not only do procedures need to be simplified, but compliance with prescribed timelines must be enforced.

Management is currently undertaking revisions to the operations review process to resolve these challenges. The ongoing revision of the Presidential Directive 03/2013 related to the Bank's operations review process is based on an assessment of the Bank's internal procedures with the view to reduce time to approval, eliminate redundancies, and streamline the review and approval process. This entails increased accountability and efficiency considerations. This will be done with input from operational departments undertaking SME assistance initiatives.

Coordination of SME Assistance

Management concurs with the need to enhance coordination between departments. This is facilitated through the recent creation of the OFSD department, which blends together public and private resources. Previously, the financial institutions department had initiated an informal Bank-wide SME working group which will be re-instated, thus avoiding the pitfalls of setting up a cumbersome or expensive structure. The working group can ensure an approach to implementing SME assistance that combines public, private sector and civil society elements with stronger links between SME-financing operations and support geared towards policy, legal and regulatory reforms. Management can also explore opportunities to link the AfDB network with that of other institutions and sister MDBs.

M&E Arrangements

The evaluation notes that establishing M&E for SME assistance operations is a challenging task, complicated by the two-tiered structure of many SME operations which requires reporting on both 'immediate' beneficiaries (banks, equity funds, etc.) and 'ultimate' beneficiaries (the SMEs). This approach as currently practiced is not aligned with the intent and practicalities of wholesale financing operations through intermediaries which requires portfolio level monitoring and supervision, an approach adopted by several peer MDBs.

Management agrees on the importance of collecting credible information on project achievements. To this end, OSHD will introduce impact analysis evaluation in the preparation of two entrepreneurship support projects planned for 2015 (Zambia and Togo), in order to provide evidence-based knowledge on effective approaches. This can be supported by well-functioning, user-friendly and harmonized systems. To build capacity of regional member countries, the Bank is also supporting the Africa Community of Practice for Managing for Development Results.

The AfDB has adopted the One Bank Results Measurement Framework 2013-2016 (RMF), to track the results of Bank interventions. The Bank is also re-enforcing the tools, processes and systems that underpin the RMF. This includes: tracking results throughout the project cycle; monitoring results in real time and mapping the Bank's portfolio of ongoing operations (MapAfrica).

The Results Reporting System (RRS) was developed in 2013 to provide Management with real-time information on the results of ongoing operations. It will also track portfolio performance by sector, region and country, providing Management with critical information to further improve portfolio performance. The RRS is now in place and will be fully rolled out in partnership with operations departments by the end of 2015.

The AfDB must be more selective in its performance monitoring indicators. As the evaluation indicates, the AfDB's requirements are already burdensome for many potential clients and in some cases, have resulted in losing business for the Bank. Instead of simply requiring more information, there is a need to take a more collaborative approach to incentivize potential clients to streamline data collection and to focus on indicators that truly reflect the benefits and mechanics of wholesale financing approaches. This could be done by providing clients with additional support and guidance, as some may not be familiar with the areas the AfDB may be seeking information on, such as job creation estimates for sub-project investees.

Conclusion

The evaluation makes a number of useful recommendations, many of which are in-line with Management's own findings since the period under review and have therefore already been implemented. Management is pleased for the opportunity to further refine the approach to SME assistance, as detailed in the attached Management Action Record.

MANAGEMENT ACTION RECORD	
Recommendation	**Management's Response**
Recommendation 1: Develop a comprehensive conceptual framework for SME assistance.	
The Bank should consider the establishment of a comprehensive framework for SME assistance. Ideally, this could take the form of a dedicated strategy, covering all forms of SME assistance, as done by the EBRD. The development of such a framework should be accompanied by a revamping of analytical work, which could provide useful inputs both for policy formulation and for the design of specific operations.	**AGREED**. The evaluation rates AfDB's strategic orientation as satisfactory and new strategies which encompass SMEs and entrepreneurship were approved in 2014. Analytical work, driven by the research department (EDRE) and sector departments (OSHD, OSGE, OSAN) will continue to support policy and operations. Research and sector departments will continue analytical work to support policy formulation and operation design. **Actions:** ▌ AfDB will create a cross-departmental working group to advise on the best approach for elaborating a comprehensive framework for SME assistance with an implementation plan. OFSD will take the lead in convening the group by Q2, 2016.
Recommendation 2: Adopt a definition of SME	
It is important that an official definition of SME is adopted by the Bank, so that the target groups are clearly defined. The definition of SME put forward in the ASMEP, based on size parameters, is a good starting point, as it differentiates between small and medium firms and countries at different levels of development. In the case of operations with financial intermediaries, the Bank may consider to complement the definition based on size parameters with a definition based on loan size, which is likely to be more easily handled by PFIs.	**AGREED**. Management agrees on the importance of proper targeting of SMEs. As the evaluation notes, this is already being done under the ASMEP, while all financing agreements now clearly specify eligibility criteria. **Actions:** ▌ A definition of enterprise size, which prioritizes country definitions and would be used for the purpose of monitoring, is envisaged under the NSO Policy document to be finalized by Q4, 2015. ▌ ADOA/EDRE to finalize research on SME definitions by Q1, 2016.
Recommendation 3: Expand the utilization of local currency financing	
The prevalent use of FX funding negatively affects the reach of Bank operations, as SME's financing needs are usually in local currency and PFIs are hesitant in bearing FX risks. An expansion of local currency operations is already envisaged under the ASMEP and the Bank should definitely deploy efforts to translate this orientation into concrete actions.	**AGREED**. For FIs financing local currency SME projects, the use of local currency instruments can be expanded on a best efforts basis. Accordingly, since 2011, the Board has approved a number of African currencies as official lending currencies. The AfDB has also offered local currency loans through bond issuances in Ugandan Shillings and Nigerian Naira as well as synthetic local currency loans in Zambian Kwacha. The AfDB is increasingly extending its support to smaller financial institutions (in particular, through the ASMEP) whose FX risk management capacity may be limited and thus AfDB's local currency facilities, along with treasury support for hedging, brings significant additionality. Management notes the positive reference to the ASMEP in this regard, as well as the efforts undertaken by FTRY. **Actions:** ▌ OFSD and FTRY to continue to collaborate to provide local currency loans through bond issuance, cross-currency swap, and synthetic local currency by end Q1, 2016. ▌ FTRY to explore other options for the delivery of local currency loan products for smaller deal sizes by Q1, 2016.

MANAGEMENT ACTION RECORD	
Recommendation	**Management's Response**
Recommendation 4: Improve the design of investment operations.	
The design of future operations should involve a more accurate assessment of PFIs' financial needs, with the primary objective of drastically reducing the cancellations. This should be accompanied by a more realistic assessment of PFIs' propensity and ability to effectively serve SME clients, with the setting of more realistic targets. Accordingly, project preparation work should include: (i) a detailed review of the pipelines developed by PFIs, to ascertain nature of prospective sub-borrowers (are they really SMEs?); (ii) an assessment of market conditions, leading to a clear appreciation of the nature and magnitude of the financing gap(s) to be filled (what are the market segments underserved? how many SMEs are likely to fall in these market segments?); (iii) a thorough assessment of PFIs' experience in working with SMEs (review of portfolio composition and its evolution); (iv) the identification of the changes (in organization, procedures, product mix, etc.) possibly required to effectively enter or scale-up SME financing operations; and (v) a review of other donors/MDBs' SME support programs, to avoid possible crowding out effects.	**AGREED**. Management is committed to continually improving the design of operations. This recommendation has largely already been taken on-board, including thorough assessment of market gaps, track record and capacity of institutions to reach SMEs and enhanced donor collaboration. **Actions:** ▌ Project teams including development research (ADOA), credit risk (GCRD), portfolio management (OPSM5), sector experts and country economists to continue good practice of close coordination and leveraging respective expertise. This has been found support thorough analysis and systematic incorporation of lessons learned. ▌ ADOA to issue revised framework for development outcomes and additionality in Q2, 2015. The revised framework will include an approach to reviewing PFI based not only on pipelines but also on assessing likelihood of development outcomes based on PFI capacity and track record in effectively targeting SMEs. In cases where beneficiaries are clearly defined and targeted, the new framework will also focus on third layer effects of the Bank's support to financial intermediaries where the impacts on SME development may be concentrated.
Recommendation 5: Diversify the range of client PFIs and country of operations.	
The Bank should actively seek to work with a broader range of PFIs, located in countries across the continent. A diversification of the portfolio is already envisaged by the Africa SME Program and the Bank should definitely deploy efforts to translate this orientation into concrete actions.	**AGREED**. Subject to prudential limits, Management agrees with the need to attract a broader range of clients. As the evaluation notes, this is currently being undertaken through the ASMEP and also through the Trade Finance program for SMEs in Benin, Burkina Faso, Guinea, Liberia, Sierra Leone and Togo, among others. Management will continue to review the portfolio against limits set by GCRO as well as country-specific needs for SME assistance. **Actions:** ▌ AfDB to conduct business development activities to expand AfDB's support by Q1, 2016. ▌ AfDB to leverage field offices to build up knowledge on different markets and build pipelines of new clients by Q1, 2016.
Recommendation 6: Strengthen eligibility conditions to ensure that SMEs are effectively reached.	
In the case of PFI operations, it is necessary to clearly specify eligibility conditions, so that on-lending is aligned with the intended objectives. Loan agreements with PFIs should make explicit reference to the official SME criteria retained by the Bank based on loan size. Sub-loans exceeding a certain size and/or extended to firms not qualifying as SMEs should be subject to explicit Bank approval.	**AGREED**. Management has already implemented this recommendation by ensuring eligibility conditions are strictly enforced through LoC agreements. **Actions:** ▌ OFSD and GECL will endeavor to undertake discussions on LoC agreements and CPs before Board dates (whilst managing client expectations) to ensure clients are comfortable with what is being required of them by Q4, 2015. ▌ Financing agreements will continue to specify eligibility criteria (ongoing).

MANAGEMENT ACTION RECORD	
Recommendation	**Management's Response**
Recommendation 7: Improve the relevance of TA and facilitate its implementation.	
While the problems afflicting financial intermediaries have common roots, the deployment of standardized TA packages is of limited benefit. Accordingly, TA initiatives should be tailored to the specific needs of each intermediary and be more consistently aligned with the objectives of the associated lending or investment operations. In addition, to avoid delays in the deployment of TA, the Bank should consider a simplification of procurement procedures, to better match the capabilities of beneficiaries. Regarding the first aspect, the recent finalization by the Financial Sector Development Department (OFSD) of a framework contract for the provision of TA needs assessment services for operations to be funded by ASMEP is a step in the right direction.	**AGREED**. Management agrees on the need to facilitate the implementation of TA, which the evaluation notes can be improved through programmatic approaches to TA, as in the case of the ASMEP, as well as through expanding the availability of TA funding. **Actions:** ❚ OFSD will engage FRMB to establish a programmatic approach to TA through a dedicated grant facility or fund which may minimize some of the procurement challenges associated with processing stand-alone TA requests by Q2, 2016. ❚ OFSD will continue to, on a selective basis, engage clients with a view to embedding TA within loan proceeds and tailored to specific needs. ❚ The AfDB to continue, where possible, providing TA to SMEs through the Bank's public sector window.
Recommendation 8: Improve coordination among services involved in SME Assistance.	
The coherence of SME assistance would benefit from the setting up of mechanisms to achieve a greater integration among the various Bank's services concerned. This could be done through the creation of a 'community of practice', linking all the staff involved in SME-related operations and intended to facilitate the sharing of experience and best practices. Ideally, this community of practice should be coordinated by a small 'SME Cell' modelled after the Small Business Initiative Unit recently established at the EBRD (but on a smaller scale given the vastly different scale of SME operations).	**AGREED**. Management agrees on the need to improve coordination between the many departments across the Bank that SME assistance. **Actions:** ❚ Management will establish a Bank-wide SME Working Group to coordinate the Bank's SME activities and serve as focal point. The AfDB will seek to link this network with those of other institutions. OFSD will take the lead in convening the group by Q2, 2016.
Recommendation 9: Simplify project approval procedures.	
Building upon the experience gained through the simpler procedures exhibited in the ASMEP, the Bank should consider simplification of internal procedures for SME assistance projects, including: (i) reduction in the number of gates through which project proposals have to pass; and (ii) the introduction of streamlined approval procedures, based on 'no objection' mechanisms or on the delegation of powers to senior management. The specific parameters for this reform could benefit from experience of other MDB, and in particular the EBRD and IFC.	**AGREED**. Management strongly supports the need to improve project approval procedures, which are found to take twice as long as any other MDB. It is to be noted that these challenges are currently being addressed with revisions to approval procedures planned for 2015. Beyond the number of approval gates, there is also a need for various parties to meet their service level commitments. Thus, not only do procedures need to be simplified, but compliance with prescribed timelines must be enforced. In this regard, OFSD has submitted a proposal for streamlined processing to OPSC in Q2 2015 based on an examination of the practices of other MDBs. **Actions:** ❚ OPSCOM revision of the Presidential Directive 03/2013 which is scheduled for completion by Q4 2015 and which should simplify processing for financial sector projects.

MANAGEMENT ACTION RECORD	
Recommendation	**Management's Response**
Recommendation 10: Improve the collection of information on project achievements.	
In order to accurately assess the performance of Bank assistance operations, the Bank needs to collect credible information on both financial intermediaries and ultimate beneficiaries. Loan agreements should include provisions requiring PFIs to provide information on their lending or investment activities. At a minimum, PFIs should be required to provide: (i) the number and basic features of the sub-loans; (ii) detailed data on the composition of their portfolio, with separate indication of the number and value of operations with SME (based on a uniform definition of SME); and (iii) data on nonperforming operations, again with separate indication of the relevant parameters for SME. Whenever feasible, PFIs should also be required to collect information on client SMEs, for at least some basic variables (turnover, employment, exports). Although not exhaustive, this information would be useful to establish a baseline for future impact assessment exercises.	**AGREED**. Management agrees that reporting on project achievements can be enhanced through ongoing initiatives on results measurement. However, it is to be noted that some of the recommendations have already been adopted and are currently being implemented. The AfDB must also be more selective in its performance monitoring indicators. Instead of simply requiring more information, there is a need to take a more collaborative approach and providing clients with additional support and guidance. **Actions:** ▌ ADOA to issue revised framework for development outcomes and additionality in Q2 2015. ADOA to share a proposal for development outcomes indicator tracking for SME projects and TA. This will be based on harmonized development outcome indicator initiatives being undertaken across DFIs. ▌ OSHD will embed impact analysis evaluation in the preparation of two entrepreneurship support projects in Zambia and Togo by Q4, 2015. ▌ Management will continue to report results of project achievements through the Annual Development Effectiveness Reviews, thematic and country reports by Q4 2015.
Recommendation 11: Establish a Results Tracking and Reporting System.	
In order to improve results reporting, the Bank should establish a results reporting system for tracking, monitoring and reporting on development results. Such systems are currently standard in most MDBs (DOTS system in IFC, and the TIMS system in EBRD).	**AGREED**. Management agrees that results tracking should be supported by well-functioning systems and recommends integrating and improving existing systems. Presently, work is being undertaken in this regard. **Actions:** ▌ ADOA to issue revised framework for development outcomes and additionality in Q2 2015. EDRE has incorporated financial inclusion indicators (including indirect effects) in the revised ADOA framework which is being proposed to the Board. This will enhance the M&E systems of individual projects from Q1 2016. ▌ OSHD to support RMCs to develop employment survey with data on qualitative jobs, salaries and all relevant indicators which can be used to assess the characteristics of SMEs (collaboration with ILO) in Mauritania and Togo by Q4 2016. ▌ ORQR to will roll out the Results Reporting System (RRS) by Q4, 2015.

Introduction

Nature of the Report

This report (the Report) presents the findings of ***the evaluation of Bank Assistance to Small and Medium Enterprises (2006–2013).*** This evaluation can help inform the Bank's future decisions on its assistance to Small and Medium Enterprises. It is based on four comprehensive background reports: (i) the Literature Review Report; (ii) the Benchmarking Exercise Report; (iii) the Portfolio Review Report; and (iv) the Country Case Study Report.

Objectives and Scope of the Evaluation

Objectives. The ***overall objective*** of the evaluation is to assess the relevance, effectiveness and sustainability of Bank assistance to Small and Medium Enterprises (SMEs), as well as how efficiently the Bank's structure and procedures have supported the design and delivery of operations. In this respect, the assignment is intended to evaluate the contribution of SME assistance to the Bank's overall development objectives.

The above overall objective is further articulated into three ***specific objectives***, namely:

- To evaluate the ***relevance*** of the Bank's approach to supporting SMEs, with specific reference to the Bank's general and sectoral strategy and policy and their responsiveness to the needs of beneficiaries
- To evaluate the ***results achieved*** by the Bank's assistance to SMEs in terms of outputs, outcomes and, to the extent feasible, impacts, as well as the ***additionality*** of the Bank's intervention
- To evaluate the ***efficiency*** of the Bank's approach to SME assistance, with particular reference to the organizational set up, the operational efficiency of procedures and processes, and the suitability of monitoring and evaluation arrangements.

Scope of Work. The evaluation covered ***a total of 105 operations, of which 85 were approved between 2006 and 2013*** and 20 were approved in earlier years and had self-evaluation reports[1]. Fifty projects had been completed by the end of 2013, while the remaining 55 were at various stages of implementation, including eight projects that had been approved but not yet signed.[2] The majority of operations consisted of projects with the declared objective of supporting SME development, designated as ***targeted SME (TSME) assistance*** in this evaluation. TSME assistance mostly comprises non-sovereign operations with financial intermediaries (banks, equity funds, guarantee schemes) usually supplemented by technical assistance projects, plus a few stand-alone capacity-building interventions. The TSME assistance was complemented by a few ***policy-based operations*** (PBOs), i.e. operations in support of economic reform programs that also dealt with themes relevant to SME development, such as the improvement of the legal and regulatory framework and the strengthening of support structures.

Methodological Approach

The evaluation addressed the following criteria and questions (see appendix B for the detailed evaluation matrix):

- EQ1. To what extent is the Bank's policy and strategic orientation to SME assistance relevant?
- EQ2. To what extent are the Bank's SME assistance interventions relevant?

- EQ3. What is the additionality of the Bank's SME assistance interventions?

- EQ4. To what extent have the Bank's SME assistance interventions been effective and impactful?

- EQ5. To what extent are the results of the Bank's SME assistance sustainable?

- EQ6. To what extent do the Bank's organizational structure and processes support SME assistance interventions?

Rating Scale. The evaluation used the Bank's system for rating the performance of non-sovereign operations (AfDB 2012). The rating scale and the underlying rationale are presented in table 1.

Evaluation Tasks

The assignment entailed the implementation of the following four tasks:

- ***Task 1 – Literature Review***. The purpose of this task was threefold: (i) review definitions and concepts underpinning SME policies and strategies used by the Bank, other multilateral development banks (MDBs), and bilateral/ multilateral donors; (ii) document major policy, operational strategies, and instruments for SME assistance; and (iii) identify issues and priorities relevant to the Bank's SME assistance. The evaluation team analyzed over 150 documents, including policy and strategic documents, evaluation studies, operational reports, and scholarly publications.

- ***Task 2 – Benchmarking Exercise***. This task compared the Bank's approach towards SMEs with those of two MDBs selected as comparators, namely the World Bank Group and the European Bank for Reconstruction and Development (EBRD). The exercise included a desk review of relevant documents and key informant interviews with the World Bank Group and EBRD staff during visits to Washington and London. These interviews focused on (i) the policy, strategy and instruments targeting SMEs; (ii) the institutional set-up; and (iii) the approval, implementation procedures, and monitoring and evaluation systems for SME projects.

- ***Task 3 – Portfolio Review***. This task involved a detailed review of the Bank's SME assistance operations to assess their relevance, additionality, effectiveness, and efficiency. This task also involved the analysis of more than 200 project documents produced in the various stages of the project cycles, from approval to completion, as well as key informant interviews with the task managers of these operations.

- ***Task 4 – Country Case Studies***. This task consisted of field missions to six countries

Table 1: Scale for Rating the Performance of Bank Operations

Rating level	Rationale for rating
Highly satisfactory	Overwhelming prevalence of positive aspects with virtually no flaws
Satisfactory	Marked prevalence of positive aspects clearly outweighing negative aspects
Moderately satisfactory	Prevalence of positive aspects albeit with some negative aspects
Moderately unsatisfactory	Prevalence of negative aspects only partly compensated by positive aspects
Unsatisfactory	Marked prevalence of negative aspects, clearly outweighing positive aspects
Highly unsatisfactory	Overwhelming prevalence of negative aspects with very few positive aspects

(Ghana, Kenya, Morocco, Tanzania, Togo, and Zambia), with the purpose of deepening the portfolio analysis and validating earlier findings through appropriate triangulation of documentary and first-hand evidence. The fieldwork involved key informant interviews with 120 representatives of government, financial institutions, donors, business associations, and private firms, allowing for an in-depth review of 27 operations.

The findings presented in this report are based on the results of the above tasks after triangulation of qualitative (e.g. key informant interviews) and quantitative (e.g. results database) information originating from a mix of primary and secondary sources (interviews carried out during fieldwork, project documents, evaluations of SME support initiatives, etc.). ***This information was ultimately integrated and processed in order to reach a set of overarching conclusions and to draw up evidence-based recommendations.***

The evaluation benefited from a peer-review process, which was carried out at the inception and reporting stages of the evaluation. In addition, a stakeholder reference group, with representation from the Bank's Financial Sector Development Department; Governance, Finance and Economic Management Department; Operations, Private Sector and Microfinance Department; and the Strategy and Operational Policies Department, was established to provide input and feedback throughout the evaluation process.

Limitations

- **Prevalence of Ongoing Projects**. The majority of the operations reviewed were still ongoing at the time of the analysis. This was particularly the case for TSME assistance projects, where about 60 percent of the portfolio was still under implementation. Accordingly, self-evaluation reports existed for only 10 of the 2006–2013 projects. While the ongoing status of a project is not an obstacle for the assessment of relevance, it obviously prevents a comprehensive appreciation of its effectiveness, impact, and sustainability. In order to partly address this problem, the scope of the assessment was expanded to include all TSME operations approved since 2000 and for which self-evaluation reports were available. Therefore, ***the analysis of performance of TSME operations is based on a subset of the total portfolio***, referred to as the Ex-Post Portfolio, consisting of 24 investment operations and 12 technical assistance projects, worth a total of some US$900 million.

- **Assessment of Policy-Based Operations**. For a number of reasons, PBOs were assessed separately from TSME assistance. First, PBOs are usually aimed at supporting a broad range of policy/institutional reforms, only part of which are related to SMEs. Second, the budget of PBOs is incommensurable with that of TSME projects. This is because PBOs are determined on a macroeconomic basis, without links to actual costs or investments. Third, many PBOs are designed and implemented as part of broad assistance packages also supported by other donors. This prevents a clear attribution of results to the African Development Bank (AfDB). Fourth, operational procedures for PBOs are different than those used for project assistance. This prevents a meaningful comparison of operational effectiveness. Accordingly, this evaluation provides a less detailed assessment of PBOs, which were also not rated.[3]

- **Scarcity of Information on Project Development Results**. The evaluation faced considerable difficulties in collecting adequate information on development results. The Bank does not maintain a development results tracking system where information on performance data are tracked, reported, and stored regularly in an accessible system[4]. The only instance where performance data becomes available is at the stage of self-evaluation, and even in this instance, the data are mostly focused on outputs rather than outcomes. To address this gap, the evaluation team carried out in-depth interviews with the Bank's task managers, as well as with implementing partners. This fact-finding exercise was quite extensive, covering 52 TSME projects, of which 31 were included in the Ex-Post Portfolio (worth some US$840 million, i.e. about 90 percent of the total).[5] However, interviewed task managers did not elaborate on project outcomes and tended to refer to data provided in project completion reports and expanded supervision reports. Similarly, implementing partners did not provide the required level of detail on key performance aspects (e.g. share of SME loans in the portfolio and its evolution over time, share of non-performing loans in the SME portfolio versus overall share of non-performing loans).

- **Scarcity of Information on SMEs**. Financial institutions receiving lines of credit do not systematically track the performance of SME clients unless required to do so in the loan agreement. The only exception is equity funds, which closely monitor their investee companies. However, the number of SMEs financed, and the size of assistance to equity funds, is smaller than for lines of credit. Additional information was collected during fieldwork, with 20 SMEs interviewed to validate and update data from documentary sources and provide examples. The team considered the option of a web-based survey of SMEs. However, this was not feasible since no comprehensive list of SME beneficiaries exists at the Bank.[6]

Overview of the Bank's Assistance to Small and Medium Enterprises

Introduction

The Bank has long recognized the importance of SMEs in Africa, with SME development being a recurrent theme in strategic and policy documents. As early as 1986, the Bank's Industrial Sector Policy included among its objectives "*the expansion of the private sector in African countries in support of industrial development, including an emphasis on micro-, small- and medium-scale enterprises*." Over the last decade, the importance of SME development has been emphasized in virtually all high-level documents of the Bank, including financial sector and private sector development policies and strategies.[7] ***The Bank's Strategy for 2013–2022 confirmed that SME development will remain a priority in the next decade (AfDB 2013).***

Scale and Evolution of Operations

Scale of Operations – Targeted Assistance. Between 2006 and 2013, the Bank approved 70 operations targeting SME development (TSME assistance). These operations include:

- ***Forty-six investment operations***, comprising (i) lines of credit for on-lending to financial intermediaries, including refinancing facilities; (ii) equity participations in banks and other financial intermediaries; (iii) investments in equity funds; (iv) partial credit guarantees; and (v) a few other lending operations, namely, senior loans to large companies expected to cooperate with SMEs.

- ***Sixteen technical assistance grants***, mostly financed by the Fund for African Private Sector Assistance (FAPA) and including technical assistance provided to financial intermediaries in parallel with investment operations, and extended to SME support structures.

- ***Eight institutional support projects***, providing capacity building, policy advice and other assistance to governments for the improvement of the policy, legal, and operational framework for SME development.

The total value of these projects is approximately US$2.1 billion, but this figure overstates the actual value of the Bank's SME assistance for two reasons. First, ***SME-related components account for a fraction of certain projects***. Institutional support projects include components focusing on other themes and only part of the funding is devoted to SME development. The same applies to two large investment operations in the tourism and industrial sectors, whose SME-related components account for a fraction of the total. Once non-SME-related activities are discounted, the total value of approved SME operations is estimated ***at US$1.86 billion***.[8] Second, ***the value of funds actually committed is much smaller***. In fact, by the end of 2013, nine projects worth a total US$866 million had not started yet. Therefore, ***the value of the committed SME assistance is just below US$1 billion,*** as shown in table 2.

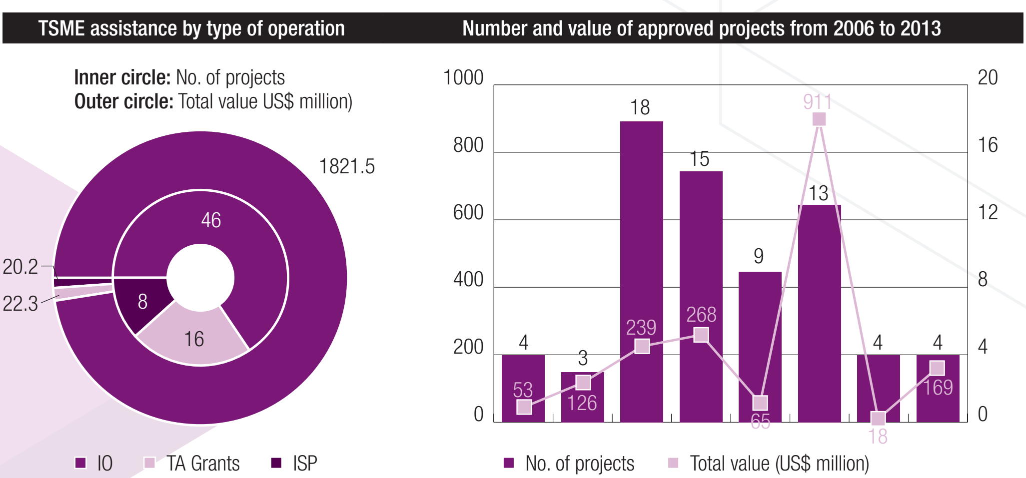
Table 2: Value of Targeted Small and Medium Enterprise Assistance

Type of project	No. of projects approved	No. of projects committed	Value of projects approved (US$, millions)	Value of projects committed (US$, millions)
Investment operations	46	39	1,821.5	957.1
Technical assistance	16	14	22.3	20.3
Institutional support	8	8	20.2	20.2
Total	70	61	1,864.0	997.6

The volume and value of TSME assistance between 2006 and 2013 did not show a recognizable trend (see figure 1). Almost half of the projects were approved in 2008–2009, often as part of larger financial packages extended to regional development finance institutions (DFIs). The number of approvals remained relatively high until 2011. Low levels of approvals were observed in 2006–2007 and in 2012–2013. The value of TSME assistance had no clear pattern, with a peak of over US$911 million in 2011 (from two large investment operations in Nigeria) compared to other years when allocations were below US$100 million.[9]

Scale of Operations – Policy-based Operations. Additional contributions to SME development were provided by ***15*** PBOs, worth some US$962 million. Aimed at supporting governments' policy reforms, these operations covered some themes relevant to SME development (e.g. reform of SME taxation). However, these operations were not included when computing the value of SME targeted assistance because SME development was only one of the themes covered. More importantly, the budgets of these operations were determined on the basis of macroeconomic considerations, without links to the actual cost of SME-related measures.[10]

Figure 1: Composition and Evolution of Targeted Small and Medium Enterprise Assistance



Size and Geographical Distribution of Small and Medium Enterprise Assistance

Size Distribution. ***The size of TSME projects shows major variations***, with allocations ranging from less than US$1 million to large operations worth up to US$500 million. Lines of credit and other debt-financing operations were by far the largest projects, with an average value of US$60 million.[11] Investments in equity funds and equity participations were on average worth US$15 million. Credit guarantee projects (worth an average of US$11 million), institutional support projects (worth US$3 million, on average), and technical assistance grants (worth US$1.5 million, on average) were much smaller. The skewed size distribution results in a high average value of US$40 million per project, compared to a median value of US$17.5 million.

Geographical Distribution. The ***geographical distribution of SME assistance is also highly concentrated***. With five investment operations totaling US$935 million, ***Nigeria*** alone accounted for half of total approvals and for almost 80 percent of approvals at the national level (i.e. excluding regional initiatives). Two large projects in Nigeria had not yet been committed to by the end of 2013. When discounting these two projects, Nigeria's share drops to 14 percent of committed funds. ***Multicountry*** initiatives, with a regional or continental scope, come in second place, accounting for over one-third of investment operations approved, with a value of some US$630 million. Other significant beneficiaries of TSME assistance include ***Ghana***, with four investment operations worth about US$60 million, and ***Tunisia and Egypt***, with one investment operation each worth US$50 million and US$40 million, respectively.

Institutional support projects were implemented in eight different countries, and only one of them (Ghana) received other types of TSME support (investment operations and a technical assistance grant). Finally, ***PBO***s were undertaken in 10 countries, three of which were not covered by any TSME operation. Overall, the ***Bank's SME assistance covered 22 countries between 2006 and 2013.***

Areas of Interventions and Instruments

Areas of Intervention. ***SME financing was by far the main area of intervention***, being the focus of 58 targeted projects and three PBOs, i.e. 70 percent of the total, including the bulk of investment operations as well as the majority of technical assistance grants, cumulatively worth no less than 98 percent of the total value of targeted assistance. ***Investment in climate reform is a very distant second***, being the focus of 19 projects, 12 of which were PBOs. Initiatives assisting SME support structures (training centers, business incubators, etc.) accounted for 13 projects. Another 11 projects were variously aimed at improving SMEs' internal capability (training).

The analysis of MDB/donor policy and operational documents and related literature yielded a typology of areas of intervention that can provide a basis for the systematic analysis of SME assistance activities. The proposed classification obviously takes into account the past and current nature of the Bank's SME assistance, but at the same time is sufficiently broad to highlight gaps as well as complements with other MDBs/donors. In particular, the classification categorizes SME assistance into six areas of intervention.[12] The broad theme of access to finance is subdivided into two areas consisting of actions aimed at increasing the volume of financing potentially accessible by SMEs (SME finance), and improving the functioning of the financial sector (financial infrastructure). The other areas are aimed at improving the environment in which SMEs operate (investment climate); enhancing the capabilities of structures providing services and other forms of support to SMEs (support structures); improving SMEs' own managerial and technical capabilities (internal capabilities); and enhancing SMEs' business opportunities through better access to markets and improved intrafirm interactions (market access). The six areas of interventions are briefly described table 3.

Table 3: Areas of Intervention for Small and Medium Enterprise Assistance

Instrument	Essential features
Small and medium enterprise finance	Interventions in this area concern the provision of funds intended to ***increase the volume of financial resources available to SMEs***. Funding can be provided directly to SMEs or, more frequently, channeled through financial intermediaries who in turn extend financing to SMEs in the form of debt financing, equity and quasi-equity, leasing, etc. Interventions can be targeted at SMEs in general or at specific SME categories (e.g. innovative firms, exporters). The provision of funding is often associated with advisory and capacity-building activities aimed at improving the capabilities of financial intermediaries to effectively serve SME clients (through the development of new financial products, the adoption of appropriate risk assessment methods, etc.).
Financial infrastructure	This category encompasses actions aimed at ***alleviating the imbalances in information and transaction*** costs that constitute the structural determinants of the financing gap faced by SMEs. These essentially include advisory and capacity-building activities aimed at (i) improving the legal and regulatory framework for financial transactions (e.g. through a reform of legislation on mortgages or the establishment of registries of pledges); (ii) facilitating the exchange of information, notably through the setting up of credit bureaus or the strengthening of similar mechanisms managed by central banks; and (iii) more generally, promoting financial sector innovation through the introduction of new financial products, financial intermediaries and new operating modalities (e.g. mobile banking, leasing).
Investment climate	This area of intervention refers to actions aimed at ***improving the legal and regulatory framework for SME operations***, with the objective of reducing the cost of doing business. Actions, typically in the form of advisory services and capacity building, may concern a variety of topics, including the tax regime applicable to SMEs, the legal and regulatory framework for the registration of firms, and the regulatory framework for enterprise licensing. It is worth noting that actions subsumed under this heading often concern all private firms, not just SMEs, although SMEs are typically the main beneficiaries of improvements.
Support structures	This area of intervention encompasses actions aimed at ***improving the quality of support services available to SMEs***. This includes two broad categories of initiatives aimed at (i) developing or strengthening business support organizations, such as chambers of commerce, business associations, export promotion bodies, and quality certification bodies; and (ii) improving the capabilities of consultants and other private providers of business development services.
Internal capabilities	This area of intervention encompasses actions aimed at ***strengthening the managerial and technical capabilities of SMEs***. These include actions aimed at (i) improving the decision-making process (e.g. through the introduction of business planning, appropriate costing methodologies); (ii) improving internal organization (e.g. through enhanced delegation of responsibilities, departmentalization); (iii) improving the quality of processes and products (e.g. from the introduction of regular maintenance programs to the adoption of quality certification schemes); and (iv) augmenting the skills base, both in general and with reference to specific themes or issues (e.g. energy efficiency, development of new products).
Market access	Actions in this area aim at ***expanding the business opportunities accessible to SMEs***. Activities fall into three broad categories: (i) actions aimed at improving business linkages between SMEs and large enterprises, namely through the facilitation of subcontracting and franchising; (ii) actions aimed at enhancing SMEs' opportunities to do business with the public sector, typically through the reform of public procurement legislation and procedures, and (iii) actions aimed at facilitating interactions among SMEs in order to achieve positive externalities through a better integration of value chains, the promotion of clustering and, more generally, the facilitation of networking.

It is important to note that ***the distinction among the various areas of interventions is not always clear cut***, and more often than not MDB/donor SME interventions target more than one area simultaneously. For instance, measures aimed at enhancing market access through improved business linkages are typically associated with actions aimed at enhancing SMEs' internal capabilities (as in order to be able to supply large enterprises, SMEs must update their quality-control systems). Similarly, interventions in the area of SME finance are often associated with initiatives aimed at improving the financial infrastructure.

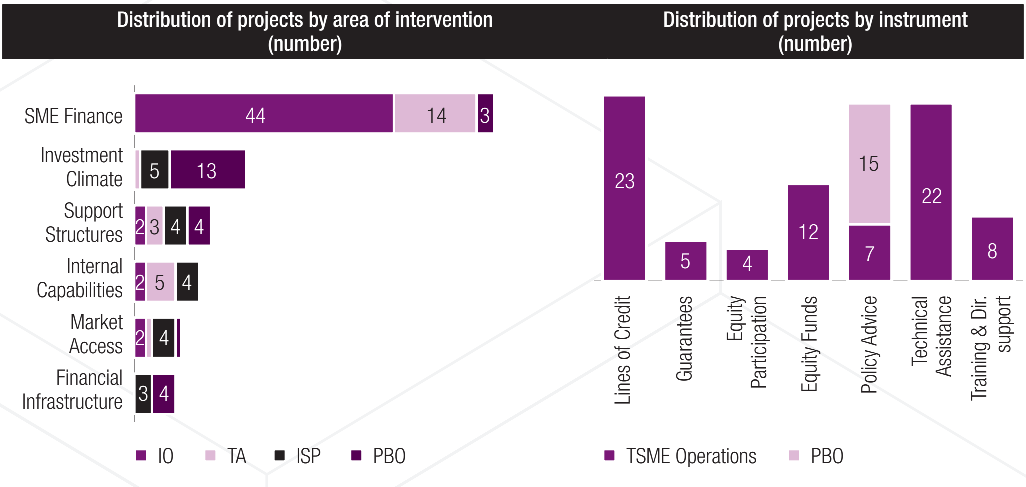
Instruments. SME assistance naturally involves the deployment of a variety of instruments (financial and non-financial). The bulk of ***SME financing is typically provided through financial intermediaries*** and includes (i) the provision of funding for on-lending to SME through credit lines and other similar mechanisms; (ii) the provision of risk capital to equity funds for further investment in SMEs; (iii) the issuance of guarantees to reduce the risk of default associated with SME lending; and (iv) the acquisition of shareholdings in banks and non-bank financial institutions working with SMEs (e.g. leasing companies). ***Non-financial assistance*** involves the provision of (i) policy advice and related analytical work; (ii) technical assistance to financial intermediaries and SME support structures; and (iii) training, consulting services and management assistance to SMEs.

Table 4 provides a brief definition and the underlying logic of financial instruments utilized in channeling SME assistance. It also outlines the advantages and disadvantages of each instrument (based on a literature review). An appropriate mix of the financial

Table 4: Financial Instruments for Small and Medium Enterprise Assistance

	What it involves	Underlying logic	Advantages	Disadvantages
Financial instruments				
Lines of credit	Provision of credit to banks and leasing companies that use the credit proceeds for on-lending.	Increase in the availability of funds to financial intermediaries for SME lending in quantitative terms (i.e. level of funds available) and/or in qualitative terms (i.e. maturity or currency matching).	Enables the Bank to deploy large volumes of funds at good margins with little risk.	Funds do not always reach SMEs and reporting on development results is not easy because of the fungibility of money.
Equity funds	Provision of risk capital (usually equity) to specialized operators (equity funds) to invest in enterprises.	Increase in the volume of resources available for equity/quasi equity investments, typically with a view of supporting the development of innovative activities characterized by a high-risk/high-reward profile.	Fund managers have an active role in the management of investee companies, which enables reporting of results.	Higher risk to the Bank requires stronger monitoring and might not be deployed in as large volumes as lines of credit.
Guarantees	Reduction of the risk borne by intermediaries working with SMEs, who in case of default can recoup (part of) their loss.	Incentivizing the use of existing resources in favor of SMEs through a risk-transfer mechanism; typically used to facilitate access to bank loans.	Better targeting of SMEs and ease of contribution to the expansion of intermediary SME portfolios.	Volume lower than lines of credit. Guarantees have traditionally lower margins.
Equity participations	Acquisition of equity in the capital of banks or other financial institutions and/or provision of debt financing that can be assimilated to capital (subordinated debt).	Strengthening the capital base of financial intermediaries so as to allow an expansion of their operations with SMEs, directly or indirectly (e.g. a stronger capital base implies better ratings, which in turn provide easier access to international capital markets).	Entails Board of Directors position which offers the opportunity to improve decision making and operational effectiveness of financial institutions	Does not allow for large volumes of investment and entails a long-term approach to investment. Used strategically.

Figure 2: Distribution of Targeted Small and Medium Enterprise Assistance by Area of Intervention and Instrument Used



instruments depends on the country context and SME needs as well as on the policy/strategy choice of the Bank.

During the timeframe of the evaluation, the Bank utilized ***lines of credit*** as the main tool for assisting SMEs, used by 23 projects and accounting for about 80 percent of total TSME approvals. ***Equity funds investments*** made up one-sixth of projects, accounting for 12 percent of funds, while equity participation intermediaries and guarantees were much less used. ***Technical assistance*** was the most frequent non-financial instrument, used by 22 TSME projects (i.e. almost one-third of all TSME assistance initiatives). Training and direct support was provided by only a tiny minority of TSME operations. Finally, policy advice was the main component of all PBOs, and several institutional support projects. An overview of TSME assistance is given in figure 2.


IMPORT-EXPORT

Relevance of Policy and Strategic Orientation

Overall Assessment

Overall, ***the relevance of the Bank's strategic orientation is rated as satisfactory.*** This rating is largely based on (i) the emphasis placed by the Bank on regional/pan-African operations; (ii) the Bank's growing propensity to broaden the range of instruments; and (iii) the attention recently paid to the definition of SMEs in the context of the Africa SME Program (ASMEP). These positive aspects are considered to at least partly offset the negative one (high geographical concentration of assistance at the country level, and limited volume of lending in local currency).

Conceptualization of Small and Medium Enterprise Assistance

General Considerations. ***The strategic approach for SME assistance is not clearly articulated within the Bank***. The Bank does not have a standalone SME strategy, with SME development being covered by sector and thematic policies and strategy documents. These documents contain references on the "why" and "how" SMEs should be supported, but the analysis is often fairly basic. Even though the level of elaboration is higher in the case of Bank assistance in the area of SME finance, the analysis and/or the solutions proposed are not always supported by convincing evidence. For example, emphasis is placed on various documents on regional DFI operations, despite scarce evidence of their ability to serve SMEs.[14] Similar considerations apply to economic and sector work where ***only a handful of reports or papers focusing on SMEs, SME development, and related themes were produced between 2006 and 2013***. Again, the few exceptions tend to refer to access to finance issues, with some studies on SME lending practices in commercial banks, credit bureaus, and DFIs.[15]

The fairly modest level of conceptualization of SME assistance at the Bank is at odds with other MDBs. While the absence of a full-fledged SME strategy is a common occurrence (only EBRD has one), the theme of SME assistance is usually the subject of much more detailed and comprehensive treatment. This is especially the case of the two institutions selected as comparators, EBRD and the World Bank. The situation in these two institutions is summarized in box 1 below.

The ASMEP (AfDB 2013) has provided a ***more elaborate and realistic analyses of the needs*** of SMEs in the Bank's regional member countries ***to be addressed and of the pros and cons of the possible solutions***. The report contains a comprehensive analysis of the issues at stake in assisting SMEs, and a set of coherent proposals. However, the ASMEP focuses on financial assistance to SMEs through banks, which is only one part of the Bank's strategy for assistance to SMEs (albeit by far the most important), and a comprehensive strategic reference framework has yet to be developed.

Definition of Small and Medium Enterprise. The definition of SME is essential for the formulation and provision of assistance. At present, the Bank does not have an official definition of SME. A working definition, based on typical size criteria (number of employees, annual turnover, and value of assets) was recently put forward in the ASMEP, but ***the operations approved over the 2006–2013 period either did not make reference to any SME definition or used ad hoc definitions.***

Box 1: Conceptualization of Small and Medium Enterprise Assistance: European Bank for Reconstruction and Development and International Finance Corporation

For the European Bank for Reconstruction and Development, SME development is an important theme; SME assistance has always been the subject of in-depth analysis, resulting in high-level documents such as the *SME Strategy of* 2006 (EBRD 2006) and the more recent *Small Business Initiative Review*, approved at the end of 2013 (EBRD 2013). These are quite elaborate documents, providing a detailed review of the key challenges to be tackled and clearly identifying the areas of intervention and the main instruments used, including exhaustive treatment of new products to be developed (e.g. local currency lending, and risk-sharing mechanisms). The volume of economic sector work is limited, but this is largely compensated for by a number of influential evaluations and operational reviews that have played a significant role in shaping the design of SME interventions (EBRD 2005).

The International Finance Corporation—part of the World Bank Group—does not have an SME strategy, and orientation towards SME development is analyzed in corporate strategic documents, such as the FY14-18 Road Map (IFC 2013). However, a much more detailed analysis can be found in high-level documents dealing with interventions in specific areas, such as the strategy for investment in climate activities developed by the Facility for Investment in Climate Advisory Services (FIAS 2011). Even more importantly, policy development and strategic thinking are supported by a large volume of quality analytical works, such as the recent job study that has been instrumental in focusing SME assistance activities on job creation (IFC 2013b).

The absence of a clear definition of what constitutes the object of SME assistance is not a peculiarity of the Bank. Among the leading MDBs, only the International Finance Corporation (IFC) and the Inter-American Development Bank have official definitions of SME. The International Bank for Reconstruction and Development has no single definition of an SME (and some differ from IFC's), while EBRD makes reference to the definition adopted by the European Union. The Asian Development Bank and the International Fund for Agricultural Development do not have an official definition of SME and rely on the definitions adopted by member countries. In addition, when working with financial institutions, some MDBs supplement or replace their SME definitions based on size criteria with simpler definitions, based on loan size. ***Such multiplicity of definitions inevitably affects the comparability of SME assistance actions and, most importantly, of their results***. The definitions of SMEs proposed in the ASMEP are presented in tables 5 and 6 below.

The lack of an SME definition may have operational consequences, as it prevents a clear identification of the target group. This was the case of several Bank SME assistance operations, where the absence of a SME definition left excessive room for maneuver for financial intermediaries, with operations aimed at assisting SMEs ultimately

Table 5: Small and Medium Enterprise Definitions Used by Multilateral Development Banks for Financial Intermediaries

Entity	Countries	Turnover (US$)		
		Micro enterprise	Small enterprise	Medium enterprise
International Finance Corporation	Advanced countries	< 10,000	10,000–100,000	0.1–2 million
	Other countries			0.1–1 million
European Bank for Reconstruction and Development	All countries	< ≅ 40,000	≅ 40,000–170,000	≅ 170,000–685,000

Table 6: Small and Medium Enterprise Definitions Based on Size Criteria

Multilateral development bank	Region	Type of Firm	Employees	Assets (US$, millions)	Turnover (US$, millions)
Africa SME Program	Large economies/middle-income countries	Small	5–100	0.1–2	0.1–2
		Medium	100–250	2–10	2–10
	Other countries	Small	5–50	0.1–2	0.1–2
		Medium	50–100		
International Finance Corporation	All countries	Small	10–50	0.1–3	0.1–3
		Medium	50–300	3–15	3–15
European Bank for Reconstruction and Development	All countries	Small	10–49	2.7–13.6	2.7–13.6
		Medium	50–249	14–59	14–68

supporting large enterprises. In addition, the multiplicity of definitions used by MDBs are explained (and to some extent justified) by the different nature of operations (i.e. lending versus other forms of assistance) and, especially, by differences in levels of development across countries of operation. Some practitioners have proposed flexible definitions of SMEs in order to adequately reflect the diversity of conditions in various countries.[16] However, ***the use of multiple or flexible definitions is likely to prove unworkable in operational terms, and some compromise must be struck***. In this respect, the definition put forward in the ASMEP, which allows differentiation between small and medium firms and countries at different levels of development, is a good starting point.

Areas of Intervention and Instruments

Areas of Intervention. As indicated in section 3.2, access to finance is by far the main area of SME intervention for the Bank, being the focus of 80 percent of projects approved between 2006 and 2013. Investment climate reform is a very distant second, pursued primarily through PBOs, which sometimes are only marginally targeted at SME development. The Bank is also active in assisting SME support structures, in facilitating market access through the promotion of business linkages between large companies and SMEs, and in strengthening SME managerial capabilities (through the activities of the African Management Services Company). However, these activities account for a marginal share of total SME assistance.

The Bank's SME development agenda differs significantly compared with that of other MDBs. As shown in table 7, ***the breadth of the Bank's SME assistance agenda is not different to that of other institutions***. Indeed, the majority of MDBs, including the two comparators, the World Bank Group's IFC and EBRD, are active in nearly all areas of interventions, with the notable exception of the International Fund for Agricultural Development and the European Investment Bank. ***However, Bank assistance is, comparatively, much more concentrated on SME finance***, making it more similar to specialized institutions such as the International Fund for Agricultural Development and the European Investment Bank rather than to the comparators and other regional MDBs.

The narrower focus of the Bank's SME development agenda is largely a logical consequence of structural differences: the resources devoted by the Bank to SME assistance are a fraction of the SME budget of other MDBs, and a concentration in SME finance is in line with the need to achieve a critical mass, and reflects comparative advantage considerations. However, ***the limited attention devoted to other themes may prevent***

Table 7: Breadth and Depth of the Small and Medium Enterprise Assistance Agenda in Multilateral Development Banks

Multilateral development bank/ donor	SME finance	Financial infrastructure	Investment climate	Support structures	SME capabilities	Market access
African Development Bank	✓✓✓	✓	✓	✓	✓	✓
Comparators						
International Finance Corporation	✓✓✓	✓✓✓	✓✓✓	✓	✓✓	✓✓
European Bank for Reconstruction and Development	✓✓✓	✓✓	✓	–	✓	–
Other multilateral development banks						
World Bank (IBRD)	✓	✓✓✓	✓✓✓	✓✓	✓	✓✓
Inter-American Development Bank	✓✓✓	✓✓	✓	✓✓	✓✓	✓
Asian Development Bank	✓✓✓	✓✓	✓✓	✓✓	✓	✓
European Investment Bank	✓✓✓	✓	–	–	–	–
International Fund for Agricultural Development	✓✓✓	✓	–	✓	–	✓

Legend: ✓✓✓ Strong focus ✓✓ Moderate focus ✓ Limited focus – Negligible focus/not covered

NB. The relative assessment of the breadth and depth of areas is made horizontally for each MDB (e.g. IFC's strong focus on investment climate is relative to IFC's activities in other areas, not to the activities of other MDBs in investment climate).

the achievement of important synergies. This is the case in particular for interventions in the area of financial infrastructure, where an improvement in basic conditions is often a pre-condition for the achievement of good results in SME finance.

Instruments. In the case of instruments, the situation is more nuanced. On the one hand, the Bank shares with other MDBs a strong emphasis on debt financing via credit lines. However, ***the Bank's approach has been fairly traditional, with more intense use of classical apex lending operations***, mostly channeled through regional DFIs and whose development effectiveness has been repeatedly put in doubt.[17] On the other hand, ***the Bank has shown a propensity to broaden the range of instruments utilized***. This is the case for investment in equity funds, where the number of operations and the volume of resources mobilized by the Bank is not different in relative terms to that of IFC and EBRD, and higher than in other MDBs (see table 8). Similar considerations apply to the use of credit guarantees. Historically, their use has been fairly low, but the creation of the African Guarantee Fund constitutes a major innovation, even compared to other MDBs (EBRD only recently decided to approach the topic, following the approval of the ***Small Business Initiative Review***).[18] ***One remaining gap is the limited use of lending in local currency***, an area where some (but by no means all) MDBs have been comparatively more active.

Coherence with the Bank's Overall Strategy

The themes targeted by the SME assistance are well aligned with the Bank's overall strategic orientation. In particular, the emphasis on access to finance is fully aligned with the general objectives for an inclusive private sector development set out in high-level documents. The same applies to

Table 8: Main Small and Medium Enterprise Assistance Instruments Utilized by Multilateral Development Banks

Multilateral development banks/ donors	Credit lines	Credit guarantees	Equity funds	Direct lending	Policy advice	Technical assistance
African Development Bank	✓✓✓	✓	✓✓	–	✓	✓
Comparators						
International Finance Corporation	✓✓✓	✓	✓✓	✓	✓✓✓	✓
European Bank for Reconstruction and Development	✓✓✓	–	✓✓	✓	–	✓
Other multilateral development banks						
World Bank	✓✓	✓	–	–	✓✓✓	✓✓✓
Inter-American Development Bank	✓✓✓	✓	✓	✓	✓✓	✓✓
Asian Development Bank	✓✓✓	✓	✓	–	✓✓	✓✓
European Investment Bank	✓✓✓	–	✓	–	–	✓
International Fund for Agricultural Development	✓✓✓	–	–	–	✓	✓✓

efforts employed to improve the overall business environment, whose amelioration again figures prominently in the Bank's strategy.

Another positive aspect is the strong emphasis placed on regional or pan-African operations, which is fully in line with the Bank's overriding objective of eliminating regional disparities. Ex post, the geographical coverage of these regional or pan-African operations turned out to be less wide than expected, but this is an operational issue which does not alter the positive assessment regarding the Bank's strategic orientation. ***Similar considerations apply to the attention paid to gender issues***. Gender is often only tangentially addressed in many SME assistance projects, a problem common with other Bank operations (see AfDB – OPEV (2012). However, between 2006 and 2013, SME assistance did include some operations specifically aimed at supporting female entrepreneurship. These operations encountered some implementation problems, which certainly suggest revisiting the operational approach adopted, but again do not affect the positive assessment in strategic terms.

The above positive considerations, however, are largely offset by the skewed geographical distribution of assistance provided at the national level, which is heavily concentrated in a limited number of countries, with particular to the detriment of low-income countries. The high concentration of SME assistance is the result of the combined effect of risk considerations and of some inertia in the identification of partner financial institutions, with an inclination to work with consolidated and/or established clients. However, regardless of the reasons, such a high concentration is at odds with the Bank's emphasis on the reduction of regional disparities across the continent. In this respect, the emphasis placed by the recent ASMEP on seeking a "wide continental coverage including LICs [low-income countries] and fragile states" constitutes an important innovation.


QATAR

Relevance of Small and Medium Enterprise Assistance Operations

Overall Assessment

Overall, ***the relevance of the Bank's TSME operations is rated as moderately satisfactory***. This assessment is based on weaknesses in project design that affected a significant share of the portfolio, resulting in only a modest SME focus overall. However, all the key issues identified in earlier projects (preference for working with well-established intermediaries, excessive reliance on traditional lines of credit, limited use of local currency) have been gradually addressed by the Bank in recent years. ***No rating is possible for PBO operations*** due to their special nature, although positive aspects of the operations are more prevalent than negative ones.

Relevance of Targeted Small and Medium Enterprise Operations: Immediate Beneficiaries

Origination and Selection of Financial Intermediaries. The bulk of TSME operations originate via financing requests from regional DFIs and well-established commercial banks. In these cases, the Bank displayed a reactive role, which has several implications. First, the demand driven nature of these operations certainly facilitated interaction with financial intermediaries and the finalization of lending agreements. However, the financing needs were not always carefully assessed, which resulted in a high rate of cancellations. Second, in practice the selection of instruments was also largely left to the intermediaries, resulting in a massive recourse to traditional lines of credit, with less use of other instruments better suited to the SME market. Third, and most importantly, a number of financial institutions actually had a prior limited propensity to do business with SMEs. Examples in this respect include a pan-African institution active in the real estate and housing sector, and regional DFIs in West Africa, which do not specifically target the SME sector. In this context, the Bank's ability to steer sub-lending operations towards SMEs was quite limited, and this is symbolized by the flexible terms for the use of Bank proceeds incorporated in the loan agreements. However, it should be noted that the Bank's approach has been changing recently to a more proactive approach, with growing inclination to work with smaller financial institutions more focused on the SME sector and to use a greater range of instruments, including credit guarantees, which by their very nature ensure a greater focus on SMEs. Major examples of this new approach are the establishment, in mid-2012, of the African Guarantee Fund and the launch in mid-2013 of the ASMEP.

Coordination with Other Initiatives. It is also worth noting that nearly all the financial institutions funded by the Bank also received prior or parallel support from other MDBs and/or donors, and about one-third of them feature an international financial institution equity participation (see table 9). In terms of risk, this may provide comfort about the capacity to manage the funds and successfully implement projects, although it may also raise questions about the actual financing needs of these partners. The issue is more acute in the case of line-of-credit operations, since there was limited coordination with other donors. With the exception of one single operation jointly prepared with the World Bank (the Tunisia SME APEX Facility), all other operations were structured without much consideration of other SME support initiatives. Other types of intervention were instead designed and implemented in coordination with other donors. Examples include (i) the African

Table 9: Support Provided by the Bank and Other Multilateral Development Banks/Donors to Financial Institutions

Type	Value and share of total assistance to financial institutions (US$, millions)	(%)	African Development Bank support	Other multilateral development bank/donor support
Regional development finance institution	277	18	Comprehensive support (credit lines and equity) to established partners.	Virtually all local and regional development finance institutions, which are supported by various international financial institutions (mostly FMO, AFD and EIB).
Public-owned banks and national development finance institution	847	54	Four large credit lines assisted by sovereign guarantees, and a similar number of smaller credit lines.	All banks/DFIs received credit lines from various donors, primarily EIB, the AFD and WBG. Donors/MDBs are also shareholders in some smaller DFIs.
Private, well-established bank	287	18	Line of credit in Nigeria and Ghana, and credit guarantee facilities to subsidiaries of international groups in Cameroun and Ghana.	Most banks received credit lines from various donors/MDBs (European Investment Bank, Proparco, IFC, DEG), and other regional banks (e.g. Afreximbank).
Private, small and medium-sized local banks	165	10	A handful of credit lines and guarantees operations. The bulk of funds (ASMEP) are yet to be allocated.	All but one banks received support from donors (i) credit lines from IFC, European Investment Bank, Norad, IsDB, Afreximbank; (ii) equity participations from Danida, DEG and IFC; and (iii) technical assistance from IFC.
Non-bank financial institutions	5	< 0.5	One single, small line of credit to a leasing company.	Extensive support from donors/MDBs, including (i) credit lines from the OPEC fund, ICD, FMO, EIB, BIO and (ii) equity participations from FMO and OPEC fund.

Note:

AFD: Agence Française de Développement (French Development Agency)
BIO: Belgian Investment Company for Developing Countries
CDC: Commonwealth Development Corporation
DEG: German Investment Corporation
DFI: development finance institutions
EIB: European Investment Bank
FMO: Netherlands Development Finance Company
ICD: Islamic Corporation for the Development of the Private Sector
IFC: International Finance Corporation
IsDB: Islamic Development Bank
MBD: Multilateral Development Bank
OPEC: Organization of the Petroleum-Exporting Countries
WBG: World Bank Group

Guarantee Fund, where the Bank actively sought the involvement of other partners, securing the support of Danida and the Spanish Ministry of Foreign Affairs; (ii) with various technical assistance projects implemented in cooperation with IFC and United Nations agencies; and (iii) the Growth-Oriented Women Enterprises Development project in Cameroun, implemented in partnership with the Agence Française de Développement (French Development Agency) and IFC.

Combination of Investment and Technical Assistance Operations. Generally, these are a positive feature in project design, aiming at facilitating SME lending. However, technical assistance was sometimes not sufficiently well targeted, as it sought to address general weaknesses in financial institutions' operations rather than being squarely focused on SME-related themes (e.g. product development). This is particularly the case of the technical assistance provided to regional DFI, whose generally limited inclination to do business with SME was scarcely influenced by Bank-financed advisory services.

Relevance of Targeted Small and Medium Enterprise Operations: Needs

The relevance of the Bank's support for the ultimate beneficiaries is mixed. The background analysis underlying some TSME operations was sometimes superficial and inadequate. A proper review of the SME sector is absent in the majority of appraisal reports, which rarely contain self-assessment of the SME financing gap and/or of other needs. SME financing was often justified on the basis of the indicative pipeline presented by the partner financial institutions (PFIs) or on a review of secondary sources (e.g. the World Bank's enterprise surveys).

Additionally, various financial operations lacked an agreed upon definition for targeted SMEs and/or of the eligibility criteria of subprojects. The absence of a precisely determined focus in the design of operations has sometimes caused discrepancies between the desired and actual beneficiaries. This problem significantly affected more than half of operations and, in particular, investments in equity funds. Indeed, with the exception of two funds in South Africa, all the funds supported by the Bank claimed an exclusive focus on SMEs.[19] However, in reality the funds were oriented towards medium-sized enterprises and those at their upper bounds (mid-caps). This is clearly demonstrated by the average deal size, which in the majority of cases exceeded US$3 million, and in two cases was in the range of US$10 million. The limited propensity to operate with SMEs, typically motivated by the higher transaction costs implied in smaller investment deals, is further confirmed by the SME definitions adopted by some equity funds, with certain funds setting thresholds of up to US$95 million, which is well above the volume of operations characterizing true African SMEs.[20]

On the positive side, irrespectively of SME definitions, the common size of the sub-loans extended by the PFIs to borrowers was largely coherent with the typical SME financing needs. This obviously is the case with the operations involving the direct or indirect provision of credit guarantees to local banks (facilitating access to loans in the US$40,000–US$300,000 range), but also with the vast majority of lines of credit (including the franchising and leasing support initiatives), whose targeted loan size was between US$85,000 and US$600,000, on average. Exceptions were various lines of credit for regional DFIs and some large operations with Nigerian banks, whose targeted loan size ranges from US$1.5 million to almost US$15 million, on average.[21]

That nearly all operations (with only a couple of exceptions) were denominated in foreign exchange (U.S. dollars and, to a lesser extent, Euros) also affected the utilization of the Bank's assistance by SMEs, despite the fact that the bulk of demand for SME financing is in local currency. Consequently, in some cases the foreign-exchange denominated funds were extended to large enterprises instead of SMEs, while, in others, the PFIs reportedly converted the funds to local currency (taking on the currency fluctuation risk) but thus making the link between AfDB funds and SME assistance untraceable. This issue especially affected older operations; more recent projects have addressed these constraints. For instance, the ASMEP is expected to avail funds through standardized multicurrency lines of credit, mainly in local currencies. In addition, in the case of one giant line of credit in Nigeria, the signing of a currency swap between the implementing partner and the Central Bank was identified as a pre-condition to be included in the loan agreement.

Relevance of Policy-Based Operations

The relevance of PBOs largely depends upon the nature of the reforms sought, which varies considerably. ***Investment climate reform*** is the most common theme, prevalent in 13 operations. Aspects covered by these operations include (i) the improvement of enterprise registration procedures (in Benin, Central African Republic, and Rwanda); (ii)

Reform of fiscal legislation, in some cases including the introduction of SME incentives (in Cape Verde, Senegal and Togo); (iii) the setting up of dedicated "SME-friendly" custom services (in Senegal); and (iv) general regulatory reform, with a view to improving the "doing-business" rankings (in several countries). Investment climate reform is relevant for SME development. However, there is a degree of mismatch between instrument and objectives: in weak capacity environments a more hands-on approach is usually necessary to achieve results (e.g. in most of the above countries, investment climate reform has been spearheaded by IFC through project operations). More relevant were the PBOs pertaining to ***financial sector reform*** (in Rwanda, Cape Verde, and Morocco). In Rwanda, three consecutive PBOs focused on the consolidation of the banking system and the establishment of a loan guarantee scheme explicitly targeting SMEs. In Morocco, the scope of financial sector reforms pursued by the two PBOs was wider, but emphasis was also placed on strengthening the national credit guarantee scheme. Similar considerations apply to the PBOs ***supporting the creation of SME support structures***. These include three operations: one in Togo, aimed at supporting the establishment of the Centre de Formalités des Entreprises; one in Senegal to set up an SME center; and one in Cape Verde to support the establishment of business incubators.

Performance of Targeted Assistance for Small and Medium Enterprises

Overall Assessment

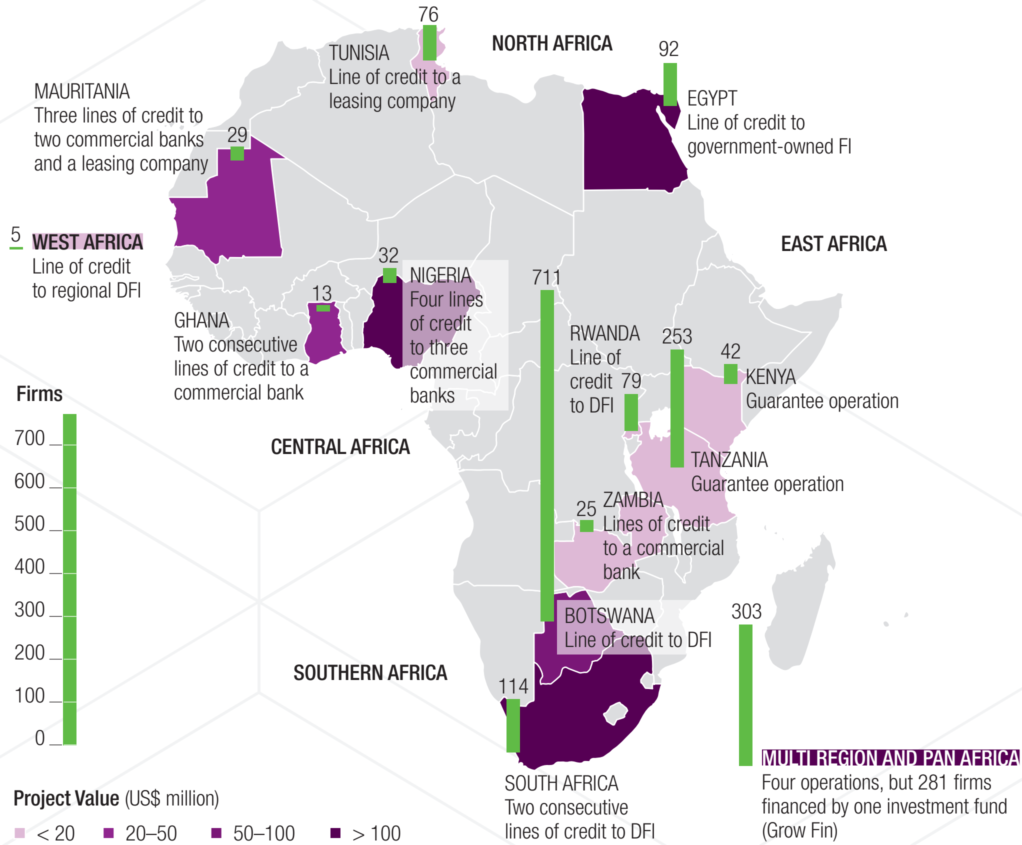
The effectiveness of the Bank's TSME assistance can be rated as moderately satisfactory.[22] This assessment is justified by (i) the negative results achieved in terms of number of SMEs served and volume of funding actually reaching SMEs; and (ii) the Bank's limited ability to influence financial intermediaries' attitudes towards SMEs. These negative aspects are deemed to more than offset the positive results achieved in terms of operational effectiveness and business success. However, it is important to stress that this negative assessment is based on the results achieved by a subset of TSME operations, including some fairly old projects that are not necessarily representative of the whole SME assistance portfolio and, especially, of more recent work. ***No rating is possible for the impact of TSME*** operations due to the paucity of information. Finally, ***no rating is possible for PBOs*** due to the special nature of these operations (although the majority of projects performed positively).

Operational Effectiveness and Output Delivery

Operational Effectiveness. ***The overall disbursement rate of the Ex-Post Portfolio is high, although performance of the associated technical assistance grants was significantly worse***. At the time of the expanded supervision report, AfDB-committed funds were fully disbursed for more than two-thirds of the Ex-Post-Portfolio projects (17 out of 24), leading to a disbursement rate of 90 percent (i.e. US$823 million). Over half (55 percent) of the undisbursed amount is attributable to the cancellation of a sizeable share (50 to 55 percent) of two US$50-million credit lines with two DFIs in the Southern African region. In both cases, the cancellation was the result of excess liquidity, suggesting a limited financial additionality of these operations. The remaining share of undisbursed funds is primarily caused by three projects (an equity fund, a guarantee operation, and a line of credit to a well-established bank) characterized by an excessively slow rollout of project activities. Disbursement problems under these operations are largely attributable to the limited buy-in and/or implementation of capacity of partners, aggravated by project-specific constraints (rigid participation rules for the credit guarantee scheme) and by negative external effects (e.g. the global economic slowdown and the Kenyan post-election crisis of 2007–2008). The disbursement rate of the associated technical assistance grants is much smaller. Overall, less than half of the grants (5 out of 12) have been fully disbursed, while three were fully cancelled, and in two more cases the disbursed amount barely exceeded one-fourth of the total amount. Key implementation issues concern (i) limited preliminary analysis of PFIs' needs, and poor communication between the Bank and the PFIs; and/or (ii) difficulties by the PFIs in complying with the Bank's disbursement and/or procurement procedures.[23]

Small and Medium Enterprises Served. ***Overall, the projects included in the Ex-Post Portfolio provided financial support to about 1,790 firms***, corresponding to an average financial contribution of around US$460,000 per firm. The distribution of supported firms is, however, very uneven, with the majority of projects (14 out of 24) supporting not more than 15 firms in total, and only a handful of

Figure 3: Distribution of the Bank's Small and Medium Enterprise Beneficiaries



operations serving more than 100 firms (with a peak of 700). There is no correlation between the volume of assistance and the number of firms assisted, which means that the unit value of assistance per firm varies greatly. As illustrated in figure 3, this is particularly the case for the West African region which, despite being the largest recipient of assistance (with seven Ex-Post Portfolio operations worth 35 percent of the total), accounts for only 3 percent of assisted firms (50 in total), with an average financing per beneficiary in excess of US$6 million.

Based on available information on sub-loan size and/or number of employees, about 90 percent of the 1,790 firms benefiting from the Bank's TSME assistance can be qualified as SMEs, the rest being mid-caps (i.e. based on a loan size of US$2 million) or large enterprises.[24] However, ***60 percent of the total funding nominally intended for SMEs actually benefitted large enterprises***. Examples of projects benefitting only large enterprises include (i) the US$30-million line of credit to a Nigerian Bank that was used to provide lending to three enterprises, and (ii) the US$40-million first line of credit to a DFI in the West African region, that was lent onwards to five companies only.

Figure 4: Performance of Ex-Post Portfolio Projects

The limited ability to reach SME beneficiaries is confirmed by a comparison between actual achievements and expected targets. Out of the 17 projects in the Ex-Post Portfolio, no less than 10 can be rated as underperforming, with a number of beneficiaries missing the target by more than 25 percent. Only four projects are overperforming, i.e. exceed the initial target by more than 25 percent, while the remaining three performed on target (i.e. with a number of beneficiaries in the +/-25 percent range compared with targets) (see figure 4).

Underperformance is usually associated with overly ambitious targets and difficulties in implementing innovative schemes. Indeed, all four projects with ambitious targets (i.e. in excess of 200 assisted firms) did not manage to reach them. The second issue can be seen in the operational difficulties encountered in the implementation of one of the few equity funds truly targeting SMEs, and in one of the operations with exclusive gender focus. In the other cases, underperformance is essentially due to a marked preference for larger transactions, with the PFIs taking advantage of the absence of clear eligibility conditions in the financing agreement or a clear definition of target SMEs and other parameters about eligible subprojects.

Achievement of Outcomes

Business Success. ***The performance of implementing partners, as well as the viability of subprojects, was positive, overall, but the quality of the subproject portfolio is (significantly) poorer in the case of some SME-focused operations.*** The financial performance of implementing partners in terms of profitability, liquidity, capital adequacy, and asset quality was largely positive. However, the actual contribution of the Bank's assistance to this result can barely be assessed, especially in the case of well-established financial intermediaries. The viability of the subprojects is also largely positive, but a higher share of non-performing subprojects is detected among projects with a more pronounced SME orientation. Overall, the share of non-performing loans was above 10 percent (with a peak of 35 percent) for half a dozen initiatives, including the guarantee operations, one equity fund and a few credit lines (such as those for the benefit of some national DFIs). However, leasing operations in the Ex-Post Portfolio, while having strong SME focus, recorded a much better performance. Projects focusing on larger beneficiaries typically showed an excellent track record in the servicing of loans, and reported almost no delinquency problems (with the notable exception of one of three subprojects financed by a Nigerian Bank, which faced a severe crisis, possibly leading to bankruptcy). Overall, the review of the quality of the subproject portfolio tends to confirm the intrinsic higher risk associated with small-scale lending activities, as well as the existence of serious problems due to poor project analysis at appraisal and lack of appropriate monitoring.

Influence on SME Lending Practices. ***Only a few banks have expanded their SME lending activities as result of receiving Bank assistance***. Notably, well-established financial institutions maintained a quite wary attitude to SME lending, as was the case, for example, of one Nigerian bank, whose share of SME loans in the investment period (2008–2009) remained at a tiny 0.3 to 0.4 percent of the total portfolio. In a few cases, the trend was even reversed: for example, between 2002 and 2009, the total loan portfolio value of the one patner bank in Mauritania doubled, but the number of transactions declined, suggesting a sizable reduction of the SME share in the total portfolio. When banks did expand their SME lending activities, a deterioration of portfolio quality was sometimes registered. The modest expansion of SME-lending activities and/or the increase in non-performing loans occurred despite the fact that many PFIs also received technical assistance aimed at strengthening their ability to handle SME operations, such as training of staff in SME credit administration and management and/or setting up of credit scoring system. Nevertheless, apparently these activities did not fully deliver the intended results and only mitigated the SME loan underwriting problem, which turned out much more severe than initially appraised.

Development of New Products. ***There is very limited evidence of the development of lending products customized for SMEs***. In general, participation in Bank-funded programs did not result in any appreciable innovation in the range of financial products offered to SMEs, especially in the case of well-established banks. The few cases identified concern PFIs that already had an inclination to work with SMEs. This is the case for one bank in Tanzania, which launched its new warehouse receipt-backed lending product for agricultural marketing cooperative societies, and one Zambian bank, which introduced new forms of asset finance (lease) for SMEs and a dedicated invoice discounting facility.

Impact on Ultimate Beneficiaries. ***A comprehensive assessment of the impact of Bank assistance on SMEs is prevented by the lack of information***. In fact, the Bank project documents contain very little information regarding variables potentially indicative of impact on SMEs, such as change in turnover, employment, or exports. Similarly, PFIs do not systematically track the performance of their borrowers unless they are explicitly required to do so. A partial exception is represented by equity funds, as the limited number of investee companies and the more direct involvement of fund managers in operations make it easier to collect information. Because of these problems, it was possible to retrieve information on the incremental employment (jobs created or safeguarded) for only 15 projects. ***The total employment associated with these projects is estimated at some 25,000 jobs***. Of these, 15,000 jobs can be considered as additional employment in SMEs, whereas the remaining 10,000 refer to job creation in larger enterprises. In the case of 11 projects, it was also possible to compare the results achieved with the expected targets. ***The picture is, again, not particularly rosy, with several projects not achieving their employment generation targets***. In fact, this subset of the Ex-Post Portfolio includes only three projects overperforming (i.e. surpassing the target by more than 25 percent), another three projects performing approximately on target (i.e. with a number of jobs in the +/-25 percent range compared with targets), and the remaining five operations performing well below expectations (i.e. missing the target by more than 25 percent). It is important to note that these figures are the result of very crude calculations, based on a number of assumptions and relying on a tiny information base, and therefore have to be interpreted with great caution.

Performance of Policy-Based Operations

Information on performance is available for 13 of the 15 PBOs with an SME component approved over the 2006–2013 period. In several cases, the SME component was quite limited and/or is not clearly distinguishable from other private sector development activities, which makes a detailed assessment difficult. In addition, many PBOs were designed and implemented as part of broad assistance packages supported by other MDBs/donors, and this prevents a clear attribution of results. Overall, operations were implemented on time, with the funds fully disbursed in all cases, and minor delays occurring in only a couple of cases.

In at least eight cases, operations have been quite successful in achieving SME-specific targets. The two consecutive PBOs in ***Morocco*** contributed to the achievement of all targets regarding SME support; activities in this respect focused on the strengthening of the Caisse Centrale de Garantie in developing SME-tailored credit guarantee products, and the development of a public-private investment fund. The Caisse Centrale de Garantie provided nearly 3,000 guarantees between 2009 and 2013. In ***Senegal***, the PBO also achieved its targets, in particular contributing to (i) the creation and operationalization of the SME center; (ii) the reform of the tax code, which now includes a simplified regime and specific provision for SMEs; and (iii) the adoption of legislation that specifies the share of public contracts to be awarded to SMEs (in particular those with women managers), although some difficulties still persist in this respect. The budgetary support provided to ***Cape Verde*** also achieved SME-related targets, namely, the opening of new desks at the Maison du Citoyen, where new enterprises can be registered, and the launch of business incubators (one of which was operational at project completion, while two others were in the pipeline). Finally, the Project d'Appui aux Réformes et la Gouvernance in ***Togo*** achieved the targets of supporting (i) the operationalization of the SME Charter; (ii) the adoption of implementing regulations for the Centre de Gestion Agréé, a center with the mission of providing SMEs with business management and tax consultation services; and (iii) the operationalization of the one-stop-shop for enterprise creation. In ***Rwanda***, the three consecutive PBOs achieved or overachieved all targets, including the implementation of a far-reaching banking reform and, most importantly, the setting up of a credit guarantee scheme.

In two cases, results were positive, but they concern broader private sector development themes. This is the case of ***Ghana***, where improvements in the doing-business ranking were achieved (although the information provided in project documents does not seem completely in line with information retrieved directly from the ranking results). However, no specific SME target was included in the monitoring and evaluation framework of the operation. The PBO in ***Burkina Faso*** also addressed improvements in the business climate, but none of the reforms and results achieved or under way is particularly dedicated to SMEs.

Finally, ***results were less positive for the three remaining PBOs***. In ***Zambia***, the achievement of private sector development targets was slower than planned, leading to an extension of operations. Government officials underlined their perception of AfDB being a minor actor in private sector development. As for the Growth and Poverty Reduction Strategy Support Program Phase III in ***Benin***, not only did the business climate improve during implementation, but some indicators worsened (e.g. minimum capital to start a business and registration costs increased).

Additionality and Sustainability of Assistance Operations to Small and Medium Enterprises

Overall Assessment

The additionality of the Bank's TSME operations is rated as moderately satisfactory. This assessment is mostly motivated by positive considerations regarding financial additionality (although the Bank rarely did play a truly catalytic role), which compensates a less positive appreciation of non-financial additionality. ***No rating is possible for sustainability*** due to the limited number of TSME operations for which a meaningful assessment can be made. Finally, ***no rating is possible for PBOs*** due to the special nature of these operations, although there are no evident problems.

Most of the TSME operations are unlikely to produce strong demonstration effects, considering that (i) the lack of explicit SME orientation of several projects is not expected to attract new players to the underserved SME market; (ii) in most cases, the Bank's support was extended through traditional credit lines, characterized by the limited innovation; and (iii) the concentration of operations on well-established partners in lower middle-income countries and middle-income countries; the exceptions being the African Guarantee Fund and the ASMEP. Moreover, in light of the large share of financial institutions already supported by several other donor partners, ***the margin for the AfDB's catalytic role is rather limited.***

Financial Additionality

Credit Lines/Debt Financing Operations. ***Access to long-term funds, typically in scarce supply from commercial sources, especially during the financial crisis, are assessed as a significant added value of the Bank's interventions***, enabling PFIs to better match local demand for term credit and preventing maturity mismatch in the balance sheets. The funds provided by the Bank have been characterized by long tenure: in the large majority of the cases, irrespective of the type of financial instrument deployed, their duration is around 7 to 12 years. However, this positive assessment is mitigated by two considerations: (i) due to the flexibility enjoyed by implementing partners in the utilization of the Bank's funds, the extension of sub-loans with a proportionate tenure cannot be taken for granted; and (ii) access to long-term, concessional funding may have a limited impact on encouraging PFIs to venture into the SME market (since large firms have more long-term debt).

Equity Funds. The financial additionality of the Bank's participation in investment funds is positive, overall, in terms of incremental commercial viability. All investment funds in which the AfDB participates involve other international financial institutions (most commonly IFC) and bilateral DFIs (Belgian Investment Company for Developing Countries, Commonwealth Development Corporation, Netherlands Development Finance Company, Proparco, the Swiss Investment Fund for Emerging Markets, etc.), which, in most cases, cumulatively contribute to the majority of capital. However, ***the catalytic role possibly played by the AfDB in mobilizing international resources is not always clear-cut***. First, the timing of the Bank's participation does not seem to maximize an early crowd-in effect. Indeed, the size of the crowd-in effect is greater the sooner fund managers secure investors, as early support provides a stamp of approval to attract other capital. However, in most of cases (7 out of 12), the Bank participated in the second or the third round of fundraising. Second, in two out of the five cases in which the Bank was involved in the first round, the size of the funds remained well below the original target. The other three funds in which the Bank was a first mover were more successful. However, in one case (a health fund) the credit must be shared with IFC and the Bill and Melinda Gates Foundation, while in another (a fund based in North Africa) the fund was promoted by a well-established reputable fund manager that had already received substantial funding from MDBs/DFIs in the past (but the Bank did contribute to alleviate political risk—see below). Overall, ***in two-thirds of cases, capitalization reached or exceeded initial expectations***. AfDB's contributions have played an important role towards this achievement, considering that the Bank's share of total commitment typically ranges from between one-fifth and one-fourth of the total. In the majority of equity funds, the Bank is a lead investor or one of the largest shareholders.

Other Operations. The level of financial additionality varies considerably for other operations. ***Additionality is low in the case of the loan to a mining company in South Africa***, intended to support SME development via enhanced business linkages. A €150 million senior loan was approved in 2011, but by the end of 2013 the agreement was not yet finalized as a number of investors had pulled out. ***An element of additionality is present in a similar operation*** involving the construction of an upscale hotel in Accra. A US$16 million senior loan was approved in January 2008, but the project came to a standstill soon after due to the withdrawal of a South African bank, which was expected to provide the matching co-financing. The Bank worked with the sponsors to attract new financiers, and these efforts eventually paid off in 2011, when a sub-regional development bank in the West African region, and a subsidiary of a multinational bank in Ghana committed to step in (but the Bank had to increase its funding by US$2 million). ***The case of the AGF is much more positive,*** where the Bank played an instrumental role in the conception of the scheme and in the mobilization of funding from donors.

Non-Financial Additionality and Mitigation of Political Risk

Non-Financial Additionality. Non-financial additionality refers to the ability of improving project outcomes through the provision of technical assistance and/or other forms of engagement (e.g. policy dialogue). ***Overall, the level of additionality of SME assistance is modest***. The majority of banks/DFIs receiving credit lines from the Bank were also supported with technical assistance. However, as already mentioned in the analysis of performance, these interventions do not seem to have appreciably influenced project results. Technical assistance support was much less common in the case of Bank investments in equity funds. A sizeable FAPA grant (worth US$730,000) was approved to enable a health sector investement fund to validate, implement, and evaluate its environmental and social development framework, but no evidence is available regarding the results of this intervention. The Bank participation in equity funds is also expected to result in various types of non-financial additionality, such as the strengthening of environmental management systems, improvements in corporate governance, and transparency in investee companies. While the evidence regarding these issues is at best anecdotal, it remains that for whatever improvements were achieved, the merit should be shared with other MDBs/DFIs, i.e. the additionality, in this case, is collective and cannot be attributed only to one institution. Similar considerations apply to PBOs. Program reviews and policy dialogue contributed to improving the implementation of reforms. However, as almost all PBOs with an SME component were part of larger aid packages involving several MDBs/donors, the contribution of the Bank is undistinguishable from that of other development partners.

Mitigation of Political Risk. In general, mitigation of political risk is not particularly relevant to TSME assistance. Nonetheless, an element to mitigate political risk can be found in a few operations. These include (i) two investments in equity funds active in North, where the Bank's participation, together with that of other MDBs/DFIs, contributed to reassuring private investors regarding future prospects in the region; and (ii) the SME APEX facility in Tunisia, where the provision of financial support to the SME sector was hoped to attenuate political instability.

Sustainability

A comprehensive analysis of sustainability is challenging. The majority of SME interventions are still under implementation, and the assessment of their sustainability is precluded. Additionally, once the projects that have little results to be sustained in the Ex-Post Portfolio are removed, numbers drop substantially and the analysis becomes anecdotal. Finally, given the scarcity of information on the impact of the Bank assistance on SME beneficiaries, it is possible to formulate some considerations only for immediate beneficiaries. Subject to these important caveats, the available evidence is presented in the following paragraphs.

Sustainability of TSME Assistance Operations. In the very few cases when Bank operations effectively contributed to ***expanding and/or improving banks' SME lending (including the development of new products), some positive evidence on the persistence of these impacts could be found***. For instance, following the conclusion of the Bank's guarantee operation, in the case of one Tanzanian bank, it has continued to expand its SME lending activities: in 2013, its SME portfolio grew by 37 percent compared to the previous year (although, it still accounted for less than 10 percent of its total portfolio). Furthermore, despite the decision to reduce agricultural lending activities, it plans to use the warehouse financing piloted under the AfDB project on a wider scale. Indeed, in April 2014, the Bank entered into a partnership with IFC. IFC provided a US$75 million financing package, including a US$25-million funded line to support agricultural commodity finance business as part of its Global Warehouse Finance Program.

A Zambian bank included in this review continues to shift from large firms to SMEs, which accounted for 35 percent of its corporate projects in 2013 (up from 14 percent in 2012). However, this bank is likely to need further institutional support to be able to manage the growth of its portfolio without incurring substantial additional credit losses. The credit scoring system installed with the Bank's assistance significantly helped to streamline the processing of SME loans (the time for an SME to obtain a decision has been reduced from 14 to 5 days, on average), but did not considerably improve loan quality. Finally, with reference to final beneficiaries, the ***sustainability prospects of subprojects funded by the one Ghanaian bank were also positive***. However, the sustainability of SMEs served, as opposed to large companies remains to be ascertained.

Sustainability of Policy-Based Operations. In general, the likelihood of sustaining SME-related reforms supported by PBOs is high. No cases of clear policy reversal can be identified. However, in at least one case, there are doubts regarding the actual operationalization of the institutions supported under the project. This is in Togo, where both the SME Charter and the Centre de Gestion Agréé were still only on paper at the time of fieldwork. Although the relevant policies and regulations were issued on time, remarkable delays are being experienced. The SME Charter in particular is far from a success, with as few as eight SMEs having registered one year after the completion of the subscription campaign.

Efficiency of Organizational Set Up and Procedures

Overall Assessment

Overall, ***the efficiency of the organizational set-up dimension is rated as moderately satisfactory***. This rating is based on (i) the Bank's good performance in terms of disbursement, and, especially, (ii) the improvements recently introduced by the Bank, with the centralization of financial sector work in one single structure and the, at least partial, simplification of approval procedures under the ASMEP. These positive aspects are deemed to offset the problems linked to the generally cumbersome approval procedures. ***The appropriateness of monitoring and evaluation arrangements is rated as moderately unsatisfactory*** due to the absence of an integrated system to track project performance and the persistent problems in data collection.

Organization

Organizational Setting. Over the 2006–2013 period, the bulk of SME assistance operations was handled by the Operations, Private Sector and Microfinance Department, which is responsible for all private sector operations. Policy-based operations and institutional strengthening projects were handled by the ***Governance, Finance and Economic Management Department***. Other thematic units, such as the Agriculture and Agro-Industry Department and the Human Development Department, are potentially involved, but did not implement SME-oriented operations over the relevant period. Responsibility for policy formulation rests with the Strategy and Operational Policies Department, placed under the First Vice-President and Chief Operating Officer. Ex-ante analysis is handled by the Results and Quality Assurance Department for public sector operations and by a section under the Chief Economist's complex for private sector operations (additionality and development outcome assessment team).

Within the Operations, Private Sector and Microfinance Department, most SME work was undertaken by the ***Financial Institutions Division***, with the Industry and Services Division being involved primarily in projects with a business linkages element. Until recently (see below), the Operations, Private Sector and Microfinance Department was responsible for non-sovereign operations but could also process sovereign-guaranteed operations. The monitoring of all private sector operations is under the purview of the Portfolio Management Division. The Operations, Private Sector and Microfinance Department is also largely responsible for the operational management of FAPA, which is the main source of grant funding for TSME assistance. FAPA operations are subject to approval from the Oversight Committee.

The Bank's organizational setting for SME assistance is not qualitatively different from that adopted by other MDBs, with various forms of assistance typically handled by thematic units dealing with specific instruments (e.g. equity investments, credit guarantees). Dedicated SME units are a rare occurrence, although EBRD recently opted for this model. The organizational setting for SME operations adopted in the two comparator institutions, EBRD and IFC, is summarized in Box 2.

Recent Developments. It is important to note that the Bank's organizational setting changed at the end of 2013 with the establishment of a new Financial Sector Development Department responsible for all financial sector-related work (Africa's Financial Sector Development, AfDB informal board meeting, 21 April, 2014). Theoretically, the consolidation of

Box 2: Organizational Setting for SME Assistance: International Finance Corporation and European Bank for Reconstruction and Development

International Finance Corporation. ***The organizational approach to serving SMEs has been continually evolving within the World Bank Group***. In 2000, a joint IFC/SME department was created with responsibility for advisory services and other projects. About five years later, this was consolidated under the Advisory Services Vice Presidency and SME activities were mainstreamed. In 2011, the SME and Jobs Committee was established, inter alia, to coordinate SME work across IFC. ***At present, there are three principal units responsible for SME activities***, namely (i) Financial Markets, responsible for operations with financial intermediaries. SME operations fall under the Micro, Small and Medium Enterprises Group, which is one of the two main units in the financial markets unit, the other being Financial Infrastructure; (ii) Global Equity, responsible for investments in private equity and debt funds; and (iii) Access to Finance Advisory, focusing on access to finance for micro enterprises as well as SMEs. In general, ***there is no high-level coordinating mechanism for SME-related work***, although the Micro, Small and Medium Enterprises Group, which probably has the most integrated and comprehensive approach to SME operations, exerts a sort of leadership. It is worth noting that during 2014 the World Bank Group announced a new re-organization, entailing the creation of 14 global practices as a move towards breaking down barriers between the six regional "silos" in the World Bank. These will include ***a new finance and markets practice that is expected to take the responsibility for the SME sector***, but concrete modalities are still not known.

European Bank for Reconstruction and Development. Within EBRD, all operations (financing and technical assistance) are located within the Banking Department, headed by the First Vice President. Within the Banking Department, ***the most important transactional unit for SMEs is the Financial Institutions Group***. Following the adoption of the 2000 micro, small and medium enterprise strategy, a dedicated small business finance team (subsequently named the Group for Small Business) was established in the Financial Institutions Group with responsibility for all micro, small and medium enterprise finance projects. Technical assistance/cooperation is undertaken by the Small Business Support and Business Advisory Service divisions under the Industry, Commerce and Agribusiness unit. This organizational setting was modified with the approval of the ***2013 Small Business Initiative Review, which calls for the setting up of a new small business initiative unit***. Currently in the process of being established, the unit will have a team combining SME specialists based in London as well as full-time dedicated small business initiative bankers and advisers based in field offices. It will also have formal links with, amongst others, the Office of the Chief Economist. ***The small business initiative team will be responsible for implementing a more coordinated, strategic approach to SMEs***, including (i) overall SME strategy; (ii) SME action plans; (iii) product design and innovation; (iv) technical cooperation, including raising funding from donors; and (v) transaction support and overall small business initiative portfolio oversight.

all financial sector activities in the new department could facilitate coordination among important strands of SME assistance, notably between SME-related transaction work, entrusted to the Private Sector and Microfinance Department, and financial sector reform work (which has important ramifications for SME development) under the responsibility of the Bank's Financial Sector Development Department. However, even in this case, interventions focusing on other themes relevant for SME development (from investment climate reform to enhanced market access) would continue to be implemented by other units. In this respect, in order to support coordination and coherence of strategy and interventions across the whole range of areas of interventions, the setting up of coordination mechanisms is advised.

Procedures

Approval Procedures. ***The Bank does not have special procedures for the approval of SME assistance initiatives***. All sovereign and non-sovereign investment operations have to be approved by the Board of Directors (the Board) and have to go through the same five steps, which include (i) project preparation; (ii) project appraisal; (iii) investment negotiation; (iv) Board approval; and (v) investment agreement. For private sector operations processed by the Operations, Private Sector and Microfinance Department, the clearance process for project preparation involves (i) exploratory review within the department; (ii) concept review involving the department, the country team, and the credit committee; (iii) review at the OIVP level; and (iv) the input from the Operations Committee. Technical assistance initiatives under FAPA are subject to approval from the Oversight Committee. ***Simpler procedures are envisaged only for operations undertaken in the framework of the recently approved ASMEP***, although a formal approval from the Board is still required.

The absence of special procedures for SME assistance interventions is a common trait of MDBs, although in certain cases streamlined processes have been established involving the use of "no objection" mechanisms or framework programs. The situation in the two comparators is illustrated in box 3.

The Bank has twice as many approval gates as the other MDBs, resulting in processing times that are nearly twice as long. A comparison with IFC and EBRD is provided in table 10.

The lengthy approval procedures are confirmed by data in the Ex-Post Portfolio concerning (i) the average time elapsed from the approval of the financing proposal by the Board to the signature of the negotiated agreements (i.e. the commitment phase); and (ii) the time elapsed from the commitment to the first disbursement (i.e. the inception phase). As illustrated in table 11, with an average of eight months, the commitment phase emerges as particularly long and inefficient. It must be said that this result was partly inflated by the huge delays registered by three relatively old projects, whose commitment phase exceeded one year. In fact, commitment time of more recent operations (after 2006) is still significant but definitely shorter on average. In addition, the average inception time

Box 3: Approval Procedures for SME Assistance: International Finance Corporation and European Bank for Reconstruction and Development

International Finance Corporation. ***The approval of investment projects involves a standard set of steps***, namely, (i) business development, (ii) early review, (iii) appraisal/due diligence, (iv) investment review, (v) negotiations, (vi) public notification, and (vii) board review and approval. Board consideration and approval occurs through either regular or streamlined procedures, the latter meaning that a project is not discussed unless a director calls for it to be presented to and considered by the Board. This option is available to low-risk projects of a small enough size. Certain small projects can be approved by management under delegated authority. The due diligence process and public disclosure remain the same in all cases. ***IFC advisory services projects are approved at the individual program level by the Board or senior management, depending on the projects' size or particular features***. Advisory service programs are funded by both IFC (appropriations from its budget, net profit and fees for managing advisory services) and donors. The IFC contribution is sanctioned through the approval of the annual business plan and budget. After program approval, individual project approvals are given by management.

European Bank for Reconstruction and Development. EBRD's internal processes do not distinguish between large and small transactions, which negatively impacts small deals and client responsiveness. All new projects have to be approved by the Board. However, framework projects have been extensively used as a way of reducing the delays and bureaucracy involved in obtaining Board approval for SME-related transactions. In fact, the delegated authority provided for in frameworks allows individual loans and investments to be approved by the Small Business Investment Committee. The committee is chaired by a director reporting to the Banking First Vice President, and meets weekly. Technical cooperation projects are approved by the Strategy and Policy Committee for stand-alone projects and reviewed by the Operations Committee, where they are linked to investment projects. Despite their frequent use, frameworks are not considered to be an optimal solution for SME financing, and the 2013 ***Small Business Initiative Review*** proposed a far-reaching simplification of procedures, including the delegation of approval to designated credit managers and bankers (double vote), as well as a simplification of the legal documentation for such transactions

Table 10: Private Sector Investment Approval Stages

Criteria	African Development Bank	International Finance Corporation	European Bank for Reconstruction and Development
Approval duration	12 months	6 months	6 months
Exploratory review	Divisional management	Combined with concept review	Combined with concept review
Concept review – preliminary analysis	Department review Country team Credit Committee OIVP Operations Committee	Senior management	Operations Committee
Final review – project appraisal	Department Review Country Team Credit Committee OIVP Secretariat Operations Committee	Departmental management	Operations Committee
Final approval	Chief Operating Officer President Board of Directors	Board of Directors notification for smaller projects	Board of Directors notification for projects under €10 million

Source: AfDB OPEV. 2012.

has decreased over the years, from more than five months in the 2000–2005 period to about three months in the subsequent period.[25] All in all, the total processing time of the projects analyzed averaged 12 months.

Disbursement Procedures. ***When compared to the approval phase, delays in completing disbursement were rare and moderate***. The Ex-Post Portfolio includes only one old project implemented with substantial delays, i.e. a 20-year tenure credit line for the national DFI in East Africa, approved in 2000. Limited operational capacity in subproject appraisal and difficulties in complying with the requirements caused an overall delay of four and a half years. Smaller implementation delays affected three more projects, including (i) another long-tenure line of credit (14-year) for a state-owned bank in Egypt, whose implementation, affected by the 2008–2009 economic recession, required a six-month extension of the final disbursement; and (ii) two equity funds, whose investment period was extended by one year. Problems have emerged with the disbursement of technical assistance. Overall, only five out of the 12 projects included in the Ex-Post Portfolio had been fully disbursed at the

Table 11: Average Processing Time of African Development Bank Targeted Small and Medium Enterprise Operations

Approval period	Commitment phase	Inception phase	Total processing time
	(average duration in months)		
2000–2005	9.4	5.2	13.8
2006–2013	6.3	3.1	9.8
2000–2013	**8.0**	**4.2**	**12.0**

Note: The duration of the commitment phase was calculated for all the 24 projects included in the Ex-Post Portfolio; the disbursement phase duration refers to 22 only projects as it does not apply to the two guarantee operations. For this reason, the indicators do not immediately sum up to the overall time.

Box 4: Issues with Procedures: Evidence from Country Case Studies

Ghana Institutional Support Project to Oversight and Private Sector Development Institutions, Ghana. This was a stand-alone institutional support project focusing on improving public finance management systems and as well as private sector development institutions (in particular, the Private Enterprise Foundation). Project disbursements (and activities) lag behind schedule due to ***a series of administrative and communication complexities*** such as (i) the Bank requesting to carry out an institutional needs assessment after activities were already approved; (ii) comments on the focus, content and organization of the trainings being raised in the middle of the process rather than at the outset, causing some interruption to the project flow; and (iii) very slow follow up and communication in crucial steps of the implementation (e.g. comments on the terms of reference for procurement of services).

expanded supervision report's cut-off date. Three were cancelled, and in the remaining two cases the disbursements barely reached one-fourth of the total amount committed. The main causes of such sub-optimal performance relate to (i) difficulties on part of the PFIs to comply with the Bank's disbursement and/or procurement procedures, which were perceived as too complex and cumbersome; and (ii) insufficient preliminary analysis of the PFIs. Box 4 outlines one example of a project with procedural issues.

Monitoring and Evaluation Arrangements

The monitoring and evaluation of SME assistance operations is a challenging task, requiring design of appropriate metrics and, especially, the collection of a significant mass of data. The matter is further complicated by the two-tiered structure of most SME operations, which in principle requires the collection of information from both immediate beneficiaries (banks, equity funds, etc.) and ultimate beneficiaries (the SMEs).

At the Bank, ***a measure of the performance of SME assistance operations was developed in the framework of the ASMEP, which represents improvements of monitoring and evaluation at the design stage***. The program's logframe includes the following indicators: (i) the expansion of SME lending (e.g. growth in volume of loans to SME or increase in the financial institutions' SME loan portfolio); (ii) the improvement of PFIs' SME lending capacity (e.g. reduction in SME loan approval turnaround time and reduction in the non-performing loan ratio of SME lending); (iii) the improvement of SME lending terms (e.g. reduction in collateral requirements and/or increase in SME loan tenure); and (iv) the introduction of new SME-tailored financial products. ***However, deficiencies exist in monitoring and data collection***. The Bank has experienced acute difficulties in obtaining information from PFIs on the utilization of credit lines, equity investments and risk-sharing facilities as well as on the outcomes and impacts of SME beneficiaries. This issue worsened as portfolio officers generally paid limited attention to this aspect. According to some expanded supervision report evaluation notes, there has been, at times, lack of willpower on the part of the AfDB in sanctioning PFIs that did not comply with the information requirements on development outcomes. The Bank is trying to put in place a system capable of reporting on the results achieved and providing timely feedback. The Bank has been successful in internalizing the practice of producing expanded supervision reports, and the volume of reports has been increasing recently. However, these reports focus more on outputs rather than outcomes, and the Bank still lacks a system for reporting results along the lines of IFC's Development Outcome Tracking System.

Conclusions and Recommendations

Overall Conclusions

Relevance of the Strategic Approach to SME Assistance. The importance of SME development in Africa has been long recognized by the Bank. SME assistance has been a recurrent theme in the Bank's strategy and policy documents over the last decade. However, a dedicated SME strategy was never adopted, and the various strategy and policy documents addressing SME-related themes do not provide a well-developed and unified conceptual framework. This is reflected, inter alia, in the lack of a harmonized definition of SMEs, which makes it difficult to identify the targets of assistance operations. The range of themes addressed by the Bank's SME assistance is comparable to that of other MDBs, but the emphasis was overwhelmingly placed on improving conditions for SME finance. Other areas of interventions were addressed to a much lesser extent. The strong focus on SME finance is largely justified by the limited volume of resources available. However, greater engagement in certain areas might have produced important synergies (e.g. between financial sector reform and SME finance interventions).

Regarding instruments, the picture is mixed. On the one hand, the Bank's approach was fairly traditional, with the bulk of funding channeled through credit lines and, especially, with an intense use of classical apex lending operations, mostly channeled through regional DFIs. On the other hand, the Bank has shown a propensity to broaden the range of instruments utilized, supporting a considerable number of equity funds and setting up the African Guarantee Fund. The main remaining gap refers to the limited use of lending in local currency, which restricts the Bank's ability to effectively reach SME beneficiaries. The themes addressed by SME assistance are well-aligned with the Bank's overall strategy. Gender issues are often only tangentially addressed in many SME assistance projects, but there were also operations specifically aimed at supporting female entrepreneurship. A major element of misalignment with the Bank's overall strategy is the high concentration of assistance in a limited number of countries, with few interventions in low-income countries and fragile states.

Relevance of SME Assistance Operations. The relevance of SME assistance operations was often undermined by weaknesses in design. In some cases, there was a limited appreciation of clients' financial needs, which resulted in cancellations. In other cases, the market potential and/or the ability of PFIs to effectively serve SMEs were overestimated, resulting in the setting of overambitious targets. In the absence of a formal definition of SMEs, the financing agreements often did not appropriately specify eligibility criteria for sub-loans. This provided room for the more risk-averse banks, to utilize proceeds for safer corporate lending transactions. In a number of cases, the size of the sub-loan extended and/or the characteristics of the sub-borrowers poorly matched the typical SME profile. As a result, a significant share of Bank assistance was only nominally targeted at SMEs, but in practice can be better described as generic private sector development assistance. However, these problems mostly concern older projects, approved in the initial part of the period covered by the evaluation. In recent years, the SME focus was considerably strengthened, and operations channeled through the ASMEP and African Guarantee Fund are much more aligned with SMEs' financing needs.

Performance of SME Assistance Operations. SME financial assistance projects performed well in terms of high disbursement rates. Disbursement issues were rather experienced by technical assistance operations, due to complex procedures. Weaknesses in design limited the Bank's ability to reach out to SMEs, with a majority of projects performing below target. Overall, only 40 percent of the US$622 million disbursed was actually used to support "proper" SMEs. The creation of new jobs was not satisfactory for half of the projects considered. In purely financial terms, the majority of operations were quite successful. In the majority of cases, the share of non-performing loans reported by PFIs (when available) was marginal. However, it is important to note that the operations more squarely targeting SMEs were also those experiencing difficulties and a higher-than-average rate of non-performing loans. To some extent, this confirms the intrinsically higher risk associated with SME financing operations.

With respect to impact, very few PFIs expanded their overall SME portfolio in the period covered by the Bank's support. Similarly, participation in Bank-funded programs did not result in significant innovations in the range of financial products offered to SMEs, especially in the case of well-established banks. The few cases identified concern PFIs which already had an inclination to work with SMEs.

Additionality of the Bank's Intervention. The bank's financial additionality is demonstrated via the provision of long-term resources, which enabled PFIs to better match the demand for term credit and helped in preventing maturity mismatch in their balance sheets. The Bank is also an important investor in several equity funds, thereby contributing to their commercial viability. However, the Bank rarely played a catalytic role. Most of the client PFIs had received in the past or were concurrently receiving substantial support from other MDBs/DFIs. In the case of equity funds, the Bank was rarely a first-round investor and, again, substantial funding was also provided by other MDBs/DFIs. The Bank's non-financial additionality is modest. The majority of PFIs receiving credit lines from the Bank were also supported with technical assistance, but these interventions do not seem to have appreciably influenced project results. Finally, a limited number of operations undertaken in North Africa following the Arab Spring events had an element of political risk mitigation.

Sustainability of SME Assistance Operations. Little can be said about sustainability due to the limited number of completed projects, and the paucity of sustainable results. Most PFIs receiving support have been performing well, which is not surprising given the selection criteria adopted. There are, however, a few cases in which the innovations introduced by the Bank have been pursued after project completion. SME-related reforms supported by PBOs are largely sustainable, with no case of policy reversal identified.

Efficiency of Organizational Set-up and Procedures. The organizational setting for SME assistance is fairly compact (and less dispersed than in larger MDBs), but there is limited sharing of experience between units involved in SME work. Lengthy approval procedures are caused by a high number of approval steps (though partial simplification was recently introduced in the ASMEP). Disbursement procedures for investment operations do not seem to pose a particular problem, whereas problems were found with technical assistance operations, with the complexity of procurement procedures being the subject of criticism from clients.

Monitoring and Evaluation. The Bank is trying to put in place a system capable of reporting the results achieved and providing timely feedback. The Bank has been successful in improving indicator frameworks at the design stage, and in internalizing the practice of producing expanded supervision reports, with the volume of reports recently increasing. However, these reports focus more on outputs than outcomes, and the Bank still lacks a results reporting system along the lines of IFC's Development Outcome Tracking System.

Recommendations

Strategic Approach. In the Bank's Ten-Year Strategy, SME assistance is expected to play a growing role. The Bank's strategic approach to SME development would benefit from the introduction of a more comprehensive framework for SME assistance operations, as well as from improvements in a range of deployable instruments. To this effect, the Bank may wish to consider the following recommendations:

Recommendation 1 – Develop a comprehensive conceptual framework for SME assistance.

The Bank should consider the establishment of a comprehensive framework for SME assistance. Ideally, this could take the form of a dedicated strategy, covering all forms of SME assistance, similar to practice at EBRD. The development of such a framework should be accompanied by a revamping of analytical work, which could provide useful inputs both for policy formulation and for the design of specific operations.

Recommendation 2 – Adopt a definition of SME.

It is important that an official definition of SMEs is adopted by the Bank, so that the target groups are clearly defined. The definition of SME put forward in the ASMEP, based on size parameters, is a good starting point as it differentiates between small and medium firms and countries at different levels of development. In the case of operations with financial intermediaries, the Bank may consider complementing the definition based on size parameters with a definition based on loan size, which is likely to be more easily handled by PFIs.

Recommendation 3 – Expand the utilization of local currency financing.

The prevalent use of foreign-exchange funding limits the reach of Bank operations, as SMEs' financing needs are usually in local currency and PFIs are hesitant in bearing foreign-exchange risks. An expansion of local currency operations is already envisaged under the ASMEP, and the Bank should definitely deploy efforts to translate this orientation into concrete action.

Relevance and Effectiveness of Operations. The findings of this evaluation show that there is ample margin for improving the relevance and effectiveness of Bank SME assistance operations. To this effect, the Bank may wish to consider the following recommendations:

Recommendation 4 – Improve the design of investment operations.

The design of future operations should involve a more accurate assessment of PFIs' financial needs, with the primary objective of drastically reducing the number of cancellations. This should be accompanied by a more realistic assessment of PFIs' propensity and ability to effectively serve SME clients, with the setting of more realistic targets. Accordingly, project preparation work should include (i) a detailed review of the pipelines developed by PFIs, to ascertain nature of prospective sub-borrowers (are they really SMEs?); (ii) an assessment of market conditions, leading to a clear appreciation of the nature and magnitude of the financing gap(s) to be filled (what are the market segments underserved? how many SMEs are likely to fall in these market segments?); (iii) a thorough assessment of PFIs' experience in working with SMEs (review of the portfolio composition and its evolution); (iv) the identification of the changes (in organization, procedures, product mix, etc.) possibly required to effectively commence or scale-up SME financing operations; and (v) a review of other donors'/MDBs' SME support programs, to avoid possible crowding-out effects.

Recommendation 5 – Diversify the range of client PFIs and countries of operation.

The Bank should actively seek to work with a broader range of PFIs, located in countries across the continent. A diversification of the portfolio is already envisaged by ASMEP, and the Bank should definitely deploy efforts to translate this orientation into concrete action.

Recommendation 6 – Strengthen eligibility conditions to ensure that SMEs are effectively reached.

In the case of PFI operations, it is necessary to clearly specify eligibility conditions, so that on-lending is aligned with the intended objectives. Loan agreements with PFIs should make explicit reference to the official SME criteria retained by the Bank based on loan size. Sub-loans exceeding a certain size and/or extended to firms not qualifying as SMEs should be subject to explicit Bank approval.

Recommendation 7 – Improve the relevance of technical assistance and facilitate its implementation.

While the problems afflicting financial intermediaries have common roots, the deployment of standardized technical assistance packages is of limited benefit. Accordingly, technical assistance initiatives should be tailored to the needs of each intermediary and be more consistently aligned with the objectives of the associated lending or investment operations. The recent finalization by the Financial Sector Development Department of a framework contract for the provision of needs assessment services for technical assistance for ASMEP-funded operations is a step in the right direction. In addition, to avoid delays in the deployment of technical assistance, the Bank should consider a simplification of procurement procedures to better match the capabilities of beneficiaries.

Organization of Operations. Improvements in the strategic approach and in the design and implementation of operations need to be supported by appropriate changes in the organizational setting and in relevant procedures. To this effect, the Bank may wish to consider the following recommendations:

Recommendation 8 – Improve coordination among services involved in SME assistance.

The coherence of SME assistance would benefit from the setting up of mechanisms to achieve a greater integration among the Bank's various services. This could be done through the creation of a community of practice, linking all the staff involved in SME-related operations, with the intention of facilitating the sharing of experience and best practices. Ideally, this community of practice should be coordinated by a small SME cell modeled after the Small Business Initiative Unit recently established at EBRD (but on a smaller scale, given the vastly different scale of SME operations).

Recommendation 9 – Simplify project approval procedures.

Building upon the experience gained with the simpler procedures included in the ASMEP, the Bank should consider simplifying internal procedures for SME assistance projects, including (i) reducing the number of gates through which project proposals have to pass; and (ii) the introducing streamlined approval procedures, based on "no objection" mechanisms or on the delegation of powers to senior management. The specific parameters for this reform could benefit from experience of other MDBs, and in particular EBRD and IFC.

Monitoring and Evaluation Arrangements. The monitoring and evaluation of the Bank's SME assistance would greatly benefit from the availability of more detailed information on the results achieved by individual operations. To this effect, the Bank should consider the following recommendations:

Recommendation 10 – Improve the Collection of Information on Project Achievements.

In order to more accurately assess the performance of Bank assistance operations, more information is required concerning both financial intermediaries and ultimate beneficiaries. The Bank should include in loan agreements provisions requiring PFIs to provide information on their lending or investment activities. At a minimum, PFIs should be required to provide (i) the number and basic features of the sub-loans; (ii) detailed data on the composition of their portfolio, with a separate indication of the number and value of operations with SMEs (based on a uniform SME definition); and (iii) data on non-performing operations, again with a separate indication of the relevant parameters for SMEs. Whenever feasible, PFIs should also be required to collect information on client SMEs, for some basic variables (turnover, employment, exports). Although not exhaustive, this information would be useful in establishing a baseline for future impact assessment exercises.

Recommendation 11 – Establish a System for Tracking Results and Reporting.

In order to improve the reporting of results on Bank assistance, the Bank should establish a results reporting system for tracking, monitoring and reporting on development results. Such systems are currently standard in most MDBs (e.g. the Development Outcome Tracking System in IFC, and the Transition Impact Monitoring System in EBRD).

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Annexes

Annex A. Evaluation Matrix

Overarching Evaluation Questions	Specific Evaluation Questions	Judgment Criteria	Indicators	Sources of Information	Methods of Analysis
OEQ1 To what extent are the Bank's policy and strategic orientation to SME assistance *relevant*?	SEQ 1.1 To what extent does the Bank conceptualize SME development and SME assistance?	▌Level of conceptualization in policy and strategic ▌Level of conceptualization in operational documents	▌Existence of explicit or implicit SME definition ▌Degree of articulation of the 'theory of change' underpinning SME assistance ▌Coherence of definitions and concepts across areas of intervention and instruments	▌Bank's policy and strategic documents ▌Interviews with Bank staff	▌Content analysis ▌Causation analysis
	SEQ 1.2 To what extent is the above conceptualization aligned with best practice?	▌Adequateness of conceptualization compared with other MDBs/donors	▌Differences in the above parameters compared to what done by other MDBs/donors	▌MDBs/donors' policy and strategic documents ▌Interviews with MDBs/donors' staff	▌Content analysis ▌Comparative analysis
	SEQ 1.3 To what extent are the areas of interventions and instruments deployed coherent with the above conceptuali-zation?	▌Degree of consistency between strategic and policy orientation and areas of intervention ▌Degree of consistency between areas of intervention and instruments deployed	▌Number and value of projects in the various areas of intervention ▌Number of projects and share of resources allocated to various instruments	▌Portfolio statistics ▌Project documents (project appraisal report)	▌Content analysis ▌Descriptive statistics ▌Trend analysis
	SEQ 1.4 To what extent is the Bank's SME assistance coherent with the overall Bank's policy and strategic orientation?	▌Alignment of SME interventions overall corporate and development objectives (in terms of geographies, sectors, risk exposure) ▌Alignment with the objectives of (i) fostering inclusive growth and (ii) reducing regional, gender and age disparities	▌Number and value of SME initiatives by geographies, sectors, and risk category ▌Number and value of SME initiatives explicitly or implicitly targeting inclusive growth and/or regional, gender and age disparities	▌Portfolio statistics ▌Project documents (project appraisal report	▌Content analysis ▌Descriptive statistics ▌Trend analysis

Overarching Evaluation Questions	Specific Evaluation Questions	Judgment Criteria	Indicators	Sources of Information	Methods of Analysis
OEQ2 To what extent are the Bank's SME assistance interventions *relevant*?	SEQ 2.1 To what extent do specific SME assistance initiatives respond to the needs of *immediate beneficiaries?*	▌ Alignment of SME interventions with the constraints faced by financial intermediaries, SME support structures, etc. ▌ Complementarity of SME interventions with those of other MDBs/donors	▌ Coherence between identified needs/ capabilities and instruments deployed (e.g. line of credit in case of lack of liquidity, guarantee in case liquidity is not used due to risk considerations, etc.) ▌ Existence of formal and informal instances of coordination with other MDBs/donors	▌ Project documents ▌ Country reports ▌ Documents on immediate beneficiaries (e.g. banks' annual reports) ▌ Interviews with Task Managers ▌ Field visits (selected countries)	▌ Content analysis ▌ Qualitative assessment
	SEQ 2.2 To what extent do specific SME assistance initiatives respond to the needs of *ultimate beneficiaries?*	▌ Alignment of SME interventions with the constraints faced by various types of SME in different geographies/sectors	▌ Coherence between identified needs, volume of resources mobilized and instruments deployed (e.g. minimum size and/ or maturity of loans to support working capital needs)	▌ Project documents ▌ Country reports ▌ SME studies/ surveys ▌ Interviews with Task Managers ▌ Field visits (selected countries)	▌ Content analysis ▌ Qualitative assessment
OEQ3 What is the *additionality* of the Bank's SME assistance interventions?	SEQ 3.1 What is the 'unique input' or 'value added' of the Bank in specific SME assistance initiatives?	▌ Level of financial additionality ▌ Level of non financial additionality	▌ Extent to which the Bank's participation was important for going ahead with certain initiatives and/or for proceeding on appropriate terms ▌ Value of additional financial resources mobilized (at the level of both intermediaries and beneficiaries) ▌ Extent to which the Bank's participation was important for improving the design, risk profile or implementation of certain initiatives	▌ Project documents ▌ Interviews with Task Managers ▌ Field visits (selected countries)	▌ Content analysis ▌ Qualitative assessment

Overarching Evaluation Questions	Specific Evaluation Questions	Judgment Criteria	Indicators	Sources of Information	Methods of Analysis
OEQ4 To what extent have the Bank's SME assistance interventions been *effective and impactful?*	SEQ 4.1 To what extent have specific SME interventions delivered the planned outputs at the level of *immediate beneficiaries?*	▪ Quantity of outputs ▪ Quality of outputs ▪ Timeliness of outputs	▪ Number and value of outputs delivered (e.g. number and value of sub-loans disbursed, number of training sessions delivered, etc.) ▪ Qualitative assessment of assistance provided (e.g. quality of consultants' reports, quality of technical assistance provided, etc.) ▪ Number of days/months for output delivery (e.g. time required to fully disburse a credit line, time required to fully invest an equity fund, time required to deploy technical assistance, etc.) N.B. Quantitative indicators expressed in terms of *rate of achievement* (i.e. against targets) whenever feasible. All indicators to be disaggregated along *relevant dimensions* (type of instrument, geography, type of SME, etc.)	▪ Project documents ▪ Interviews with Task Managers ▪ Field visits (selected countries)	▪ Content analysis ▪ Qualitative assessment ▪ Descriptive statistics ▪ Statistical analysis

Overarching Evaluation Questions	Specific Evaluation Questions	Judgment Criteria	Indicators	Sources of Information	Methods of Analysis
OEQ4 To what extent have the Bank's SME assistance interventions been *effective and impactful?*	SEQ 4.2 To what extent have specific SME interventions achieved the *intended outcomes* at the level of *immediate beneficiaries?*	▌ Contribution to improved performance of financial intermediaries ▌ Contribution to improved capabilities in financial intermediaries ▌ Contribution to improved financial infrastructure ▌ Contribution to improved business climate ▌ Contribution to improved quality and availability of services provided by support structures	▌ Degree of financial intermediaries' business success (trends in profitability, value of loan/ investment portfolio, share of non performing loans/write-offs, etc.) ▌ Extent to which financial intermediaries' product range, organization and procedures have improved (e.g. launch of new lending products, delegation of powers to branch managers) ▌ Average conditions extended to borrowers or investees (e.g. tenor, interest rate, amount of collateral, etc.) ▌ Average size of financial transactions (average sub-loan, credit guarantee, investment by equity fund) ▌ Extent to which the policy and regulatory framework has improved (e.g. simplification of business registration requirements) ▌ Extent to which the provision of support services has increased (e.g. number of accredited entities able to provide 'fair trade' certifications) ▌ N.B. Quantitative indicators expressed in terms of rate of achievement (i.e. against targets) whenever feasible. All indicators to be disaggregated along relevant dimensions (type of instrument, geography, type of SME, etc.)	▌ Project documents ▌ Survey of immediate beneficiaries ▌ Documents on immediate beneficiaries (e.g. banks' annual reports ▌ Country and thematic reports (e.g. Doing Business rankings) ▌ Interviews with Task Managers ▌ Field visits (selected countries)	▌ Content analysis ▌ Qualitative assessment ▌ Descriptive statistics ▌ Statistical analysis

Overarching Evaluation Questions	Specific Evaluation Questions	Judgment Criteria	Indicators	Sources of Information	Methods of Analysis
OEQ4 To what extent have the Bank's SME assistance interventions been *effective and impactful?*	SEQ 4.3 To what extent have specific SME initiatives actually benefitted *ultimate beneficiaries?*	▌Share of outputs and outcomes attributable to firms that can be legitimately qualified as SME	▌Same output and outcome indicators indicated above, adapted as required (e.g. number and value of loans disbursed to SME, share of SME out of total number of beneficiaries accessing new or improved support services, etc.) All indicators to be segmented along *relevant dimensions* (type of instrument, geography, type of SME, etc.)	▌Survey of immediate beneficiaries ▌Documents on immediate beneficiaries (e.g. banks' annual reports)	▌Descriptive statistics ▌Statistical analysis

Overarching Evaluation Questions	Specific Evaluation Questions	Judgment Criteria	Indicators	Sources of Information	Methods of Analysis
OEQ4 To what extent have the Bank's SME assistance interventions been *effective and impactful?*	SEQ 4.4 To what extent have specific SME initiatives impacted on *ultimate beneficiaries?*	▌ Contribution to improved SME's operational and financial performance ▌ Contribution to improved SME's managerial and technical capabilities ▌ Contribution to improved SME's access to markets ▌ Contribution to improved SME's operating conditions	▌ Number of jobs created/ safeguarded ▌ Extent to which beneficiaries report an improvement in performance (number/ share of beneficiaries increasing employment, sales, exports, operating profits, productivity) ▌ Extent to which beneficiaries report an improvement in managerial and technical capabilities (e.g. number/ share of beneficiaries adopting improved management techniques) ▌ Extent to which beneficiaries report an improvement in access to markets (e.g. number/ share of beneficiaries reporting an increase in business with large customers or from public procurement) ▌ Extent to which beneficiaries report an improvement in operating conditions (e.g. number/ share of beneficiaries reporting a decline in transaction costs for doing business) N.B. Quantitative indicators expressed in terms of *rate of achievement* (i.e. against targets) whenever feasible. All indicators to be disaggregated along *relevant dimensions* (type of instrument, geography, type of SME, etc.)	▌ Survey of ultimate beneficiaries ▌ SME studies/ surveys ▌ Field visits (selected countries)	▌ Qualitative assessment ▌ Descriptive statistics ▌ Statistical analysis

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Overarching Evaluation Questions	Specific Evaluation Questions	Judgment Criteria	Indicators	Sources of Information	Methods of Analysis
OEQ4 To what extent have the Bank's SME assistance interventions been *effective and impactful?*	SEQ 4.5 To what extent have the specific SME initiatives contributed to inclusive growth and to reducing regional, gender and age disparities?	▌Share of outputs and development outcomes concerning or affecting inclusive growth and regional, gender and age disparities	▌Same output, outcome and impact indicators indicated above, adapted as required (e.g., number and value of sub-loans disbursed to young entrepreneurs, share of intermediaries' portfolio of loans to beneficiaries located in deprived areas, average conditions offered to women borrowers or investees, etc.) N.B. All indicators to be disaggregated along *relevant dimensions* (type of instrument, geography, type of SME, etc.)	▌Survey of ultimate beneficiaries ▌Field visits (selected countries)	▌Qualitative assessment ▌Descriptive statistics ▌Statistical analysis
OEQ5 To what extent are the results of the Bank's SME assistance *sustainable?*	SEQ 5.1 To what extent are the results of the Bank's SME interventions sustainable?	▌Likelihood that interventions continue to produce benefits in the longer term	▌Extent to which changes in financial intermediaries' structure and operations are permanent/transient (e.g. decision to further improve the risk rating system) ▌Extent to which changes in the policy and regulatory framework are permanent/transient (e.g. government decision to maintain/cancel a certain reform) ▌Extent to which changes in institutional capabilities are permanent/transient (e.g. number of trained officials leaving a certain institution) ▌Extent to which changes in SME structural features and operating modalities are permanent/ transient (e.g. ability to continue to work with large companies after participation in a business linkage initiative) N.B. All indicators to be disaggregated along *relevant dimensions* (type of instrument, geography, type of SME, etc.)	▌Country and thematic reports (e.g. on status of reforms, financial sector reviews, etc.) ▌Interviews with Task Managers ▌Field visits (selected countries)	▌Qualitative assessment

Overarching Evaluation Questions	Specific Evaluation Questions	Judgment Criteria	Indicators	Sources of Information	Methods of Analysis
OEQ 6 To what extent do the Bank's organizational structure, processes and tacit/ accumulated knowledge *efficiently* support SME assistance interventions?	SEQ 6.1 To what extent is the Bank's organizational set-up appropriate for the design and implementation of SME interventions? To what extent is the current organizational set-up aligned with international best practice?	▌ Suitability of the division of labor between the units involved in SME assistance ▌ Adequateness of the resources allocated to the units involved in SME assistance ▌ Adequateness of the division of labor and resources compared with other MDBs/ donors	▌ Level of complexity of the organizational set-up (number of units involved, number of procedural steps) ▌ Quality of the interactions among the units involved (instances of duplication, existence of coordination mechanisms) ▌ Magnitude, type and utilization of resources available to the units involved (number of staff, skills mix, and use of staff time for various tasks) ▌ Intensity of the interactions among the units involved (number of units involved, number of procedural steps) ▌ Differences in the above parameters compared to what done by other MDBs/donors	▌ Bank's documents on organizational aspects ▌ Interviews with Bank staff ▌ MDBs/donors' documents on organizational aspects ▌ Interviews with MDBs/donors' staff	▌ Content analysis ▌ Causation analysis ▌ Qualitative assessment
	SEQ 6.2 To what extent the Bank's SME interventions are supported by well designed operational guidelines? To what extent are the existing operational guidelines aligned with international best practice?	▌ Suitability of operational guidelines for SME assistance interventions ▌ Alignment of interventions with principles enshrined in operational guidelines ▌ Adequateness of operational guidelines compared with other MDBs/ donors	▌ Existence and intrinsic quality (clarity and comprehensiveness) of operational guidelines for different types of interventions/instruments ▌ Number and value of operations depart from principles enshrined in operational guidelines (quality at entry, cancellations) ▌ Differences in the above parameters compared to what is done by other MDBs/donors	▌ Bank's documents on procedural aspects ▌ Interviews with Bank staff ▌ MDBs/donors' documents on procedural aspects ▌ Interviews with MDBs/donors' staff	▌ Content analysis ▌ Causation analysis ▌ Qualitative assessment
	SEQ 6.3 To what extent has the Bank's economic sector work effectively contributed to design of SME assistance?	▌ Influence exerted by economic sector work on the design of SME interventions	▌ Number and quality of pieces economic sector work focusing on SME ▌ Number and value of interventions whose design was influenced by economic sector work	▌ Bank's economic sector work outputs ▌ Project documents	▌ Content analysis (selected economic sector work outputs) ▌ Qualitative assessment

Annex B. Bibliography

E.1 Literature and Benchmarking Review

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Endnotes

1. The projects analyzed were identified in close collaboration with the Stakeholder Reference Group. The evaluation covered all projects targeting SME development or containing an SME component, while excluding projects covered by the microfinance evaluation.

2. For the purpose of this evaluation, projects were considered closed if a project completion report or expanded supervision report was available.

3. It is worth noting that PBOs are usually excluded from the scope of SME assistance evaluations by similar MDBs, which only focus on targeted assistance. See, for instance, WBG – IEG (2013) and IDB – OVE (2013).

4. For example, one similar to IFC's Development Outcome Tracking System.

5. Fifteen task managers were contacted, each responsible for one or more projects. The nine task managers interviewed were responsible for 28 projects, of which 22 belong to the Ex-Post Portfolio. Interviews with PFIs covered 31 projects, of which 13 belonged to the Ex-Post Portfolio.

6. Additionally, information collected via survey would have been difficult to interpret, since proper assessment requires contextualization (awareness of Bank funding) and control (knowledge of funding from other sources).

7. Documents touching upon SME development since 2000 include AfDB (2003) *Bank Group Financial Sector Policy; AfDB (2004) Private Sector Development Strategy*; AfDB (2007) *Investing in Africa's Future: High Level Panel Report*; AfDB (2008) *Strategy Update for The Bank's Private Sector Operations*; AfDB (2010) *Bank Group Financial Sector Strategy and Action Plan (2011-2016)*; and AfDB (2013) *Private Sector Development Policy, which replaced the 1986 industrial sector policy*. In 2014, the financial sector strategy introduced some innovations. However, the strategy was presented to the Board in 2014 and falls outside the scope of this evaluation.

8. The share of funding targeted at SMEs was estimated using information from project appraisal reports.

9. Attempts were made to combine data over discrete time intervals corresponding to the adoption of key policy and strategy documents concerning SME assistance, but they did not yield a meaningful pattern.

10. It should be noted that policy-based operations are usually excluded from the scope of SME assistance evaluations, which focus on targeted assistance (see WBG – IEG (2013) and IDB – OVE (2013)).

11. In the event of multicomponent projects, only the value of SME assistance is considered.

12. This taxonomy is partly inspired by the categorization of projects adopted by the Inter-American Development Bank in the framework of a review of operations undertaken by the Capital Markets and Financial Institutions Division. The taxonomy comprises six categories, but gives greatest emphasis to financial aspects. For details see Hooton and Pietrobelli (2012).

13. The property of a good or commodity whose individual units are capable of mutual substitution.

14. References to DFIs as preferred channels for SME assistance were common in policy/strategy documents approved in the first half of the period 2006–2013, in particular in Investing in Africa's Future: High-Level Panel Report (AfDB 2007), and Strategy Update for the Bank's Private Sector Operations (AfDB 2008b), *Private Sector Development Policy of The African Development Bank Group* (AfDB 2013) contained good reference to "how" SMEs should be supported, but still emphasized the channeling of assistance via national and regional Development Finance Institutions. Other recent documents are more cautious in this respect.

15. See, in particular, *Bank Financing to Small and Medium Enterprises in East Africa: Findings of a Survey in Kenya, Tanzania, Uganda and Zambia* (Calice, Chando and Sekioua 2012); *Credit Bureaus and Registries and Access to Finance: New Evidence from 42 African Countries* (Triki and Gajigo 2012); and African DFIs: Unlocking the Potential (Calice 2013).

16. See in particular Gibson T and HJ van der Vaart (2008) *Defining SMEs: A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries.*

17. The effectiveness of these operations has been the subject of analysis in numerous evaluations, including: AfDB-OPEV (2010) *Review of Bank Group Assistance to Sub-Regional Development Banks*; WBG – IEG (2006) *World Bank Lending for Lines of Credit – An IEG Evaluation*; EIB (2006) *EIB financing through global loans under the Lomé IV Convention*; IDB – OVE (2007) *Evaluation of the Bank's Global Multisector Credit Operations – 1990 to 2005*; Asian Development Bank (2008) *Support for Financial Intermediation in Developing Member Countries*; and WBG – IEG (2008) *Financing Micro, Small, and Medium Enterprises, an Independent Evaluation of IFC's Experience with Financial Intermediaries in Frontier Countries.*

18. In 2013 the African Guarantee Fund was the acclaimed winner of the Financial Inclusion award in Africa, given by the African Banker.

19. The investment size upper threshold of these funds was set at US$1 million.

20. For instance, the operating definition adopted by the Bank under the ASMEP set the SME turnover in the US$2 million–US$10 million range, depending on the country's level of income.

21. This looks consistent with the different demand expressed by countries, based on the structure and the size of their economy. In Nigeria, banks tend to focus their lending on the oil, gas, and telecoms sectors and are hence less prone to SME activities. In smaller economies, such as in Rwanda and Tanzania, where banks face strong competition in the corporate segment, they are much more inclined towards SME lending.

22. TSME operations approved from 2006 to 2013 are still ongoing, which precludes a comprehensive performance assessment. Therefore, the analysis was extended to all TSME operations approved in the 2000–2013 period and for which expanded supervision reports are available. ***This set of projects, hereafter referred to as the Ex-Post Portfolio, includes 24 investment operations***, of which half were supported by parallel technical assistance interventions, including (i) 20 credit lines, with two

operations with leasing companies, in a variety of countries; (ii) two credit guarantee operations in East Africa; and (iii) investments in two equity funds, both with a pan-African scope. The total value of the projects comprising the Ex-Post Portfolio is US$918 million, of which US$8 million is for technical assistance grants.

23. In this particular case, the implementation of the second phase of the grant was cancelled, as the client could not properly justify the use of the previously disbursed amount; while in the case of the sub-regional bank in the West African region, the FAPA resource mobilization period was extended because of difficulties in acquiring ERP software in conformity with the Bank's procurement procedures.

24. The SME reach was assessed based on information on the sub-loan size and (when available) the number of employees of sub-borrowers contained in the expanded supervision report. With reference to the first criterion, the segmentation suggested by IFC, which identifies the upper bound for SME loans at US$2 million for more advanced countries, was used. In the few cases when only information on the Bank's co-financing share was available, the sub-loan size was assumed to correspond to 50 percent of the total value of sub-loans, a percentage in line with TSME projects. As for employment size, the maximum threshold was fixed at 250 employees, as in the ASMEP.

25. These figures are broadly in line with the results of other studies. For example, in the independent review of the non-sovereign operations portfolio from 2006 and 2011 (covering 137 projects), 93 percent of projects completed the signature stage within 12 months, and the average time elapsed from the signature to the first disbursement was 4.3 months.

An IDEV **Thematic Evaluation**

About this Publication

This evaluation report reviews the African Development Bank's assistance to Small and Medium Enterprises (SMEs) over the 2006-2013 period. It draws on a combination of desk work, including review of all relevant documents from various sources, and field work, including missions to six countries (Ghana, Kenya, Morocco, Tanzania, Togo, and Zambia). The evaluation focuses on SME financing through financial intermediaries as well as on the non-financial assistance the AfDB provides to SMEs. Moreover, it benchmarks the Bank's operations against other multilateral development banks.

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The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs; and providing policy advice and technical assistance to support development efforts.

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